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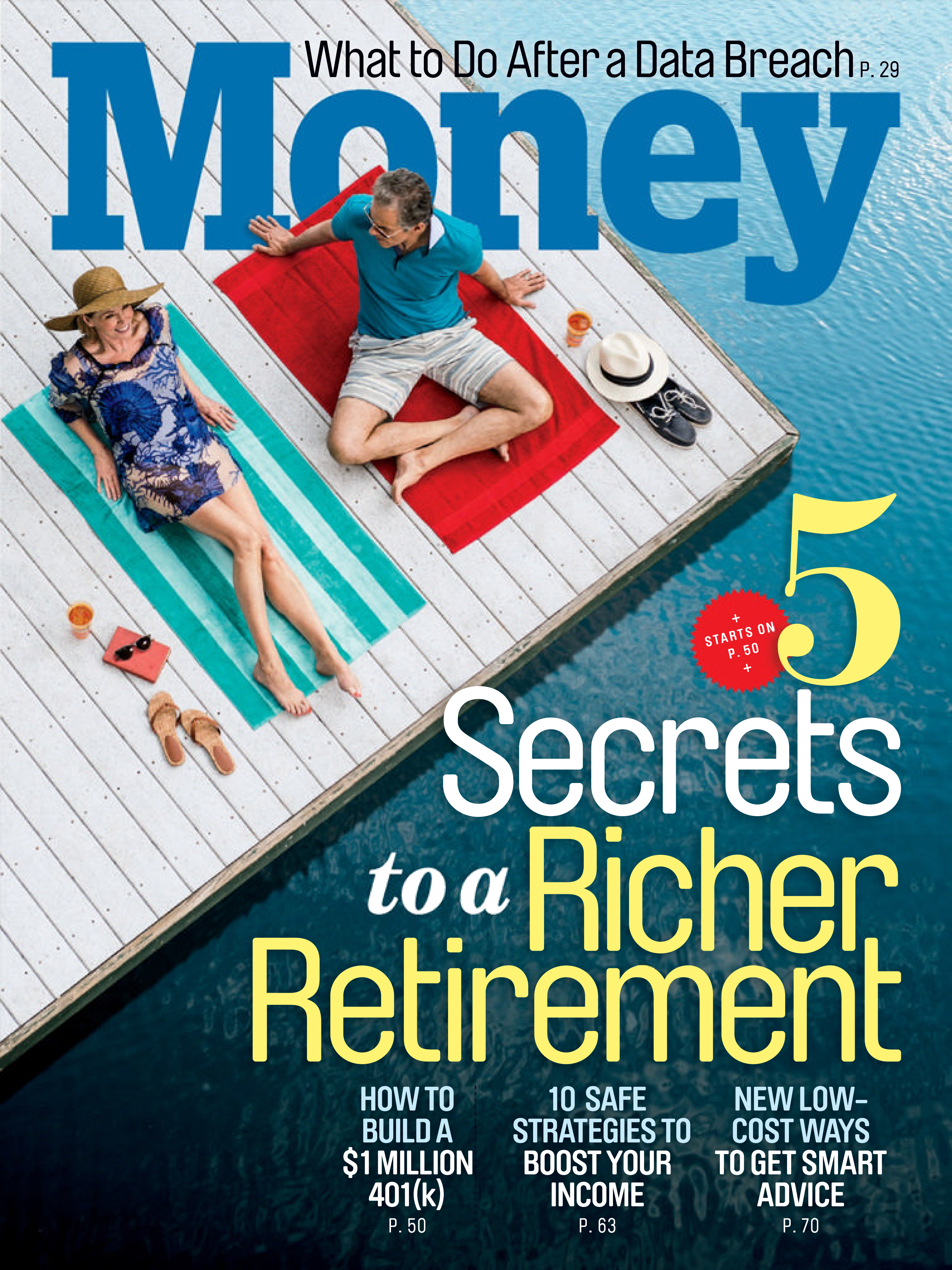
Money



+ STARTS ON P. 50 +

5 Secrets *to a* Richer Retirement

HOW TO BUILD A $1 MILLION 401(k)
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10 SAFE STRATEGIES TO BOOST YOUR INCOME
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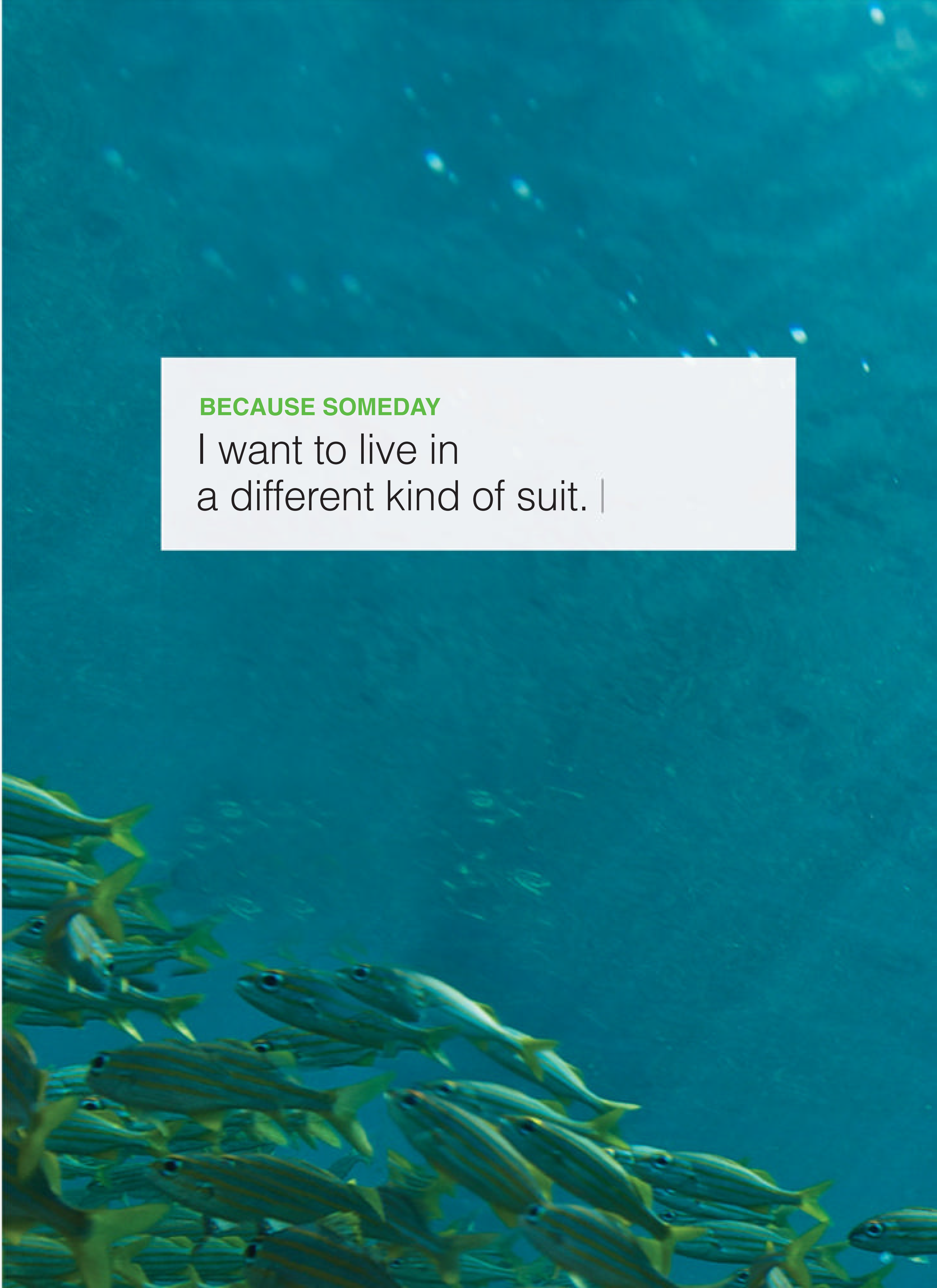
NEW LOW-COST WAYS TO GET SMART ADVICE
P. 70


BECAUSE SOMEDAY
I want to live in
a different kind of suit.

5 QUESTIONS TO ASK YOURSELF AS YOU SAVE FOR RETIREMENT

1. HOW MUCH WILL I NEED TO RETIRE?

A lot goes into answering this question, and everyone's situation is different, but our general rule of thumb is to have saved at least **8 times your ending salary by the time you retire.** Another way to think about it is the 85-by-65 approach—being able to replace 85% of your annual income by the age of 65. This can help increase the odds that you won't outlive your savings during 25+ years in retirement.

2. AM I MAXING OUT MY RETIREMENT SAVINGS AT WORK?

We suggest saving at least 10%–15% of your salary each year, including any match your employer offers. One way to gradually reach this level is to increase your savings percentage by 1% per year.

3. DO I HAVE THE RIGHT MIX OF STOCKS, BONDS, AND CASH?

When saving for retirement, it's important to have the right blend of long-term growth and preservation investments. At Fidelity, we can help you take a look at your investments, and help you decide if they're a good fit for your age, goals, and comfort with risk.

4. SHOULD I BE CONTRIBUTING TO AN IRA?

An IRA allows you to save for retirement with the benefit of potential tax advantages. An employer-sponsored savings plan, such as a 401(k), might not be enough to accumulate the savings you'll need, and an IRA could be a great way to supplement those savings.

5. HOW DO I IMAGINE MY LIFE IN RETIREMENT?

Try to envision the lifestyle you expect, and all the costs that will go along with it. Do you plan to continue working in some capacity? Where would you like to live? What type of lifestyle do you plan on having?

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Fidelity does not provide legal or tax advice and the information provided above is general in nature and should not be considered legal or tax advice.
Consult with an attorney or tax professional regarding your specific legal or tax situation.
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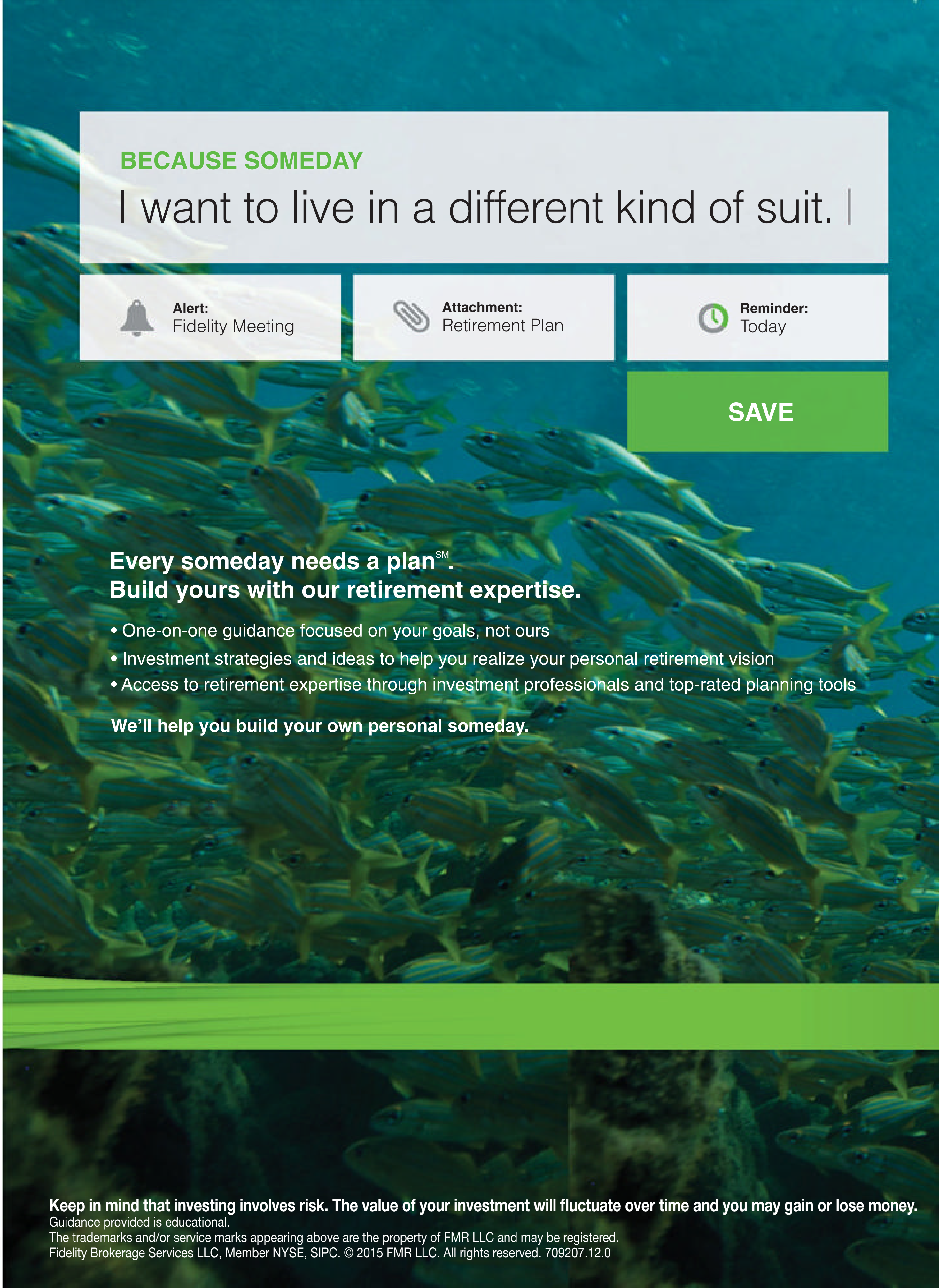
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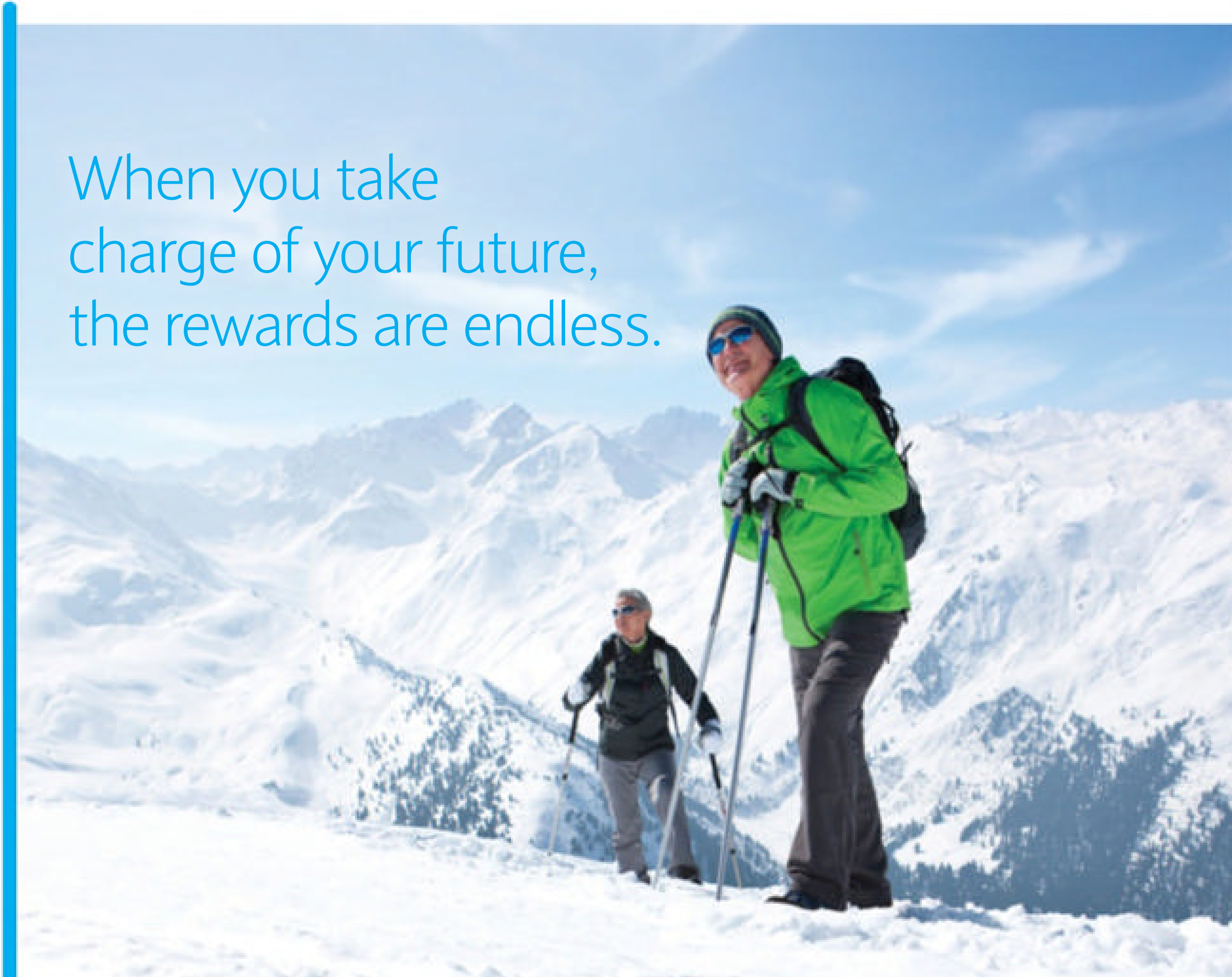
When you take
charge of your future,
the rewards are endless.

Money FEATURES

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SPRING RETIREMENT GUIDE

PROP STYLING BY BRIAN BYRNE

Photograph by GREGORY REID

ERRATIC TURNS. ABRUPT STARTS AND STOPS.

THE MARKET OR A STUDENT DRIVER?

OR

Being prepared for market unpredictability.

If there's a financial lesson to be learned from the modern day motor vehicle, it's that you can never have too many built-in safety features. In fact, we believe a long-term, rigorously disciplined and well-diversified investment approach should come standard with every financial plan. While not quite as flashy as a rear backup camera, autonomous braking or a forward collision-avoidance system, this carefully considered process is the best way to remain focused on the goals that lay beyond the horizon. Because much like an inexperienced, easily distracted teenage driver, the stock market doesn't always signal its turns. And the best way to avoid the financial equivalent of the dreaded fender bender is to practice sound investment habits. Like the well thought-through planning methods employed by every Raymond James advisor. This unwavering approach has helped clients reach their financial destination for over 50 years. Go to lifewellplanned.com to learn more. It's time to find out what a Raymond James financial advisor can do for you. **LIFE WELL PLANNED.**

Like a brazen squirrel darting into traffic, market volatility can cause one to swerve off course.

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Cover photograph by **DAVE LAURIDSEN**
Wardrobe by Diana L Chan; hair and makeup by Hyun Park; prop styling by Patrick Muller; production by Jessica Schaeffer for Pulse Production

"I was trying to make sure we had income in retirement, but I got overzealous."

—Carlos Gomez, **Road to Wealth**

COLUMNS

PHOTOGRAPH BY SCOTT COUNCIL; WARDROBE BY DIANA L CHAN; HAIR AND MAKEUP BY LINDA ZIRKUS

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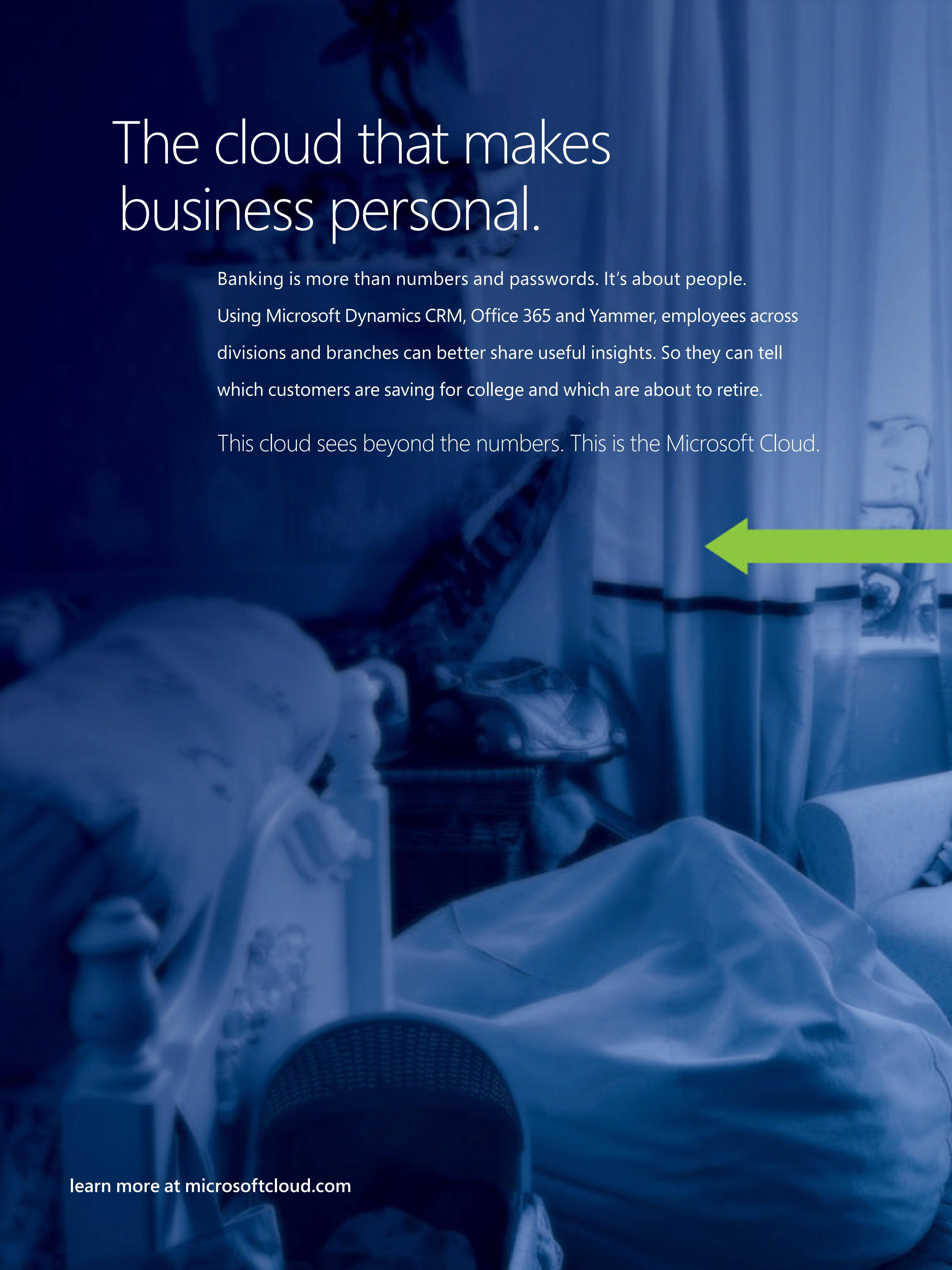

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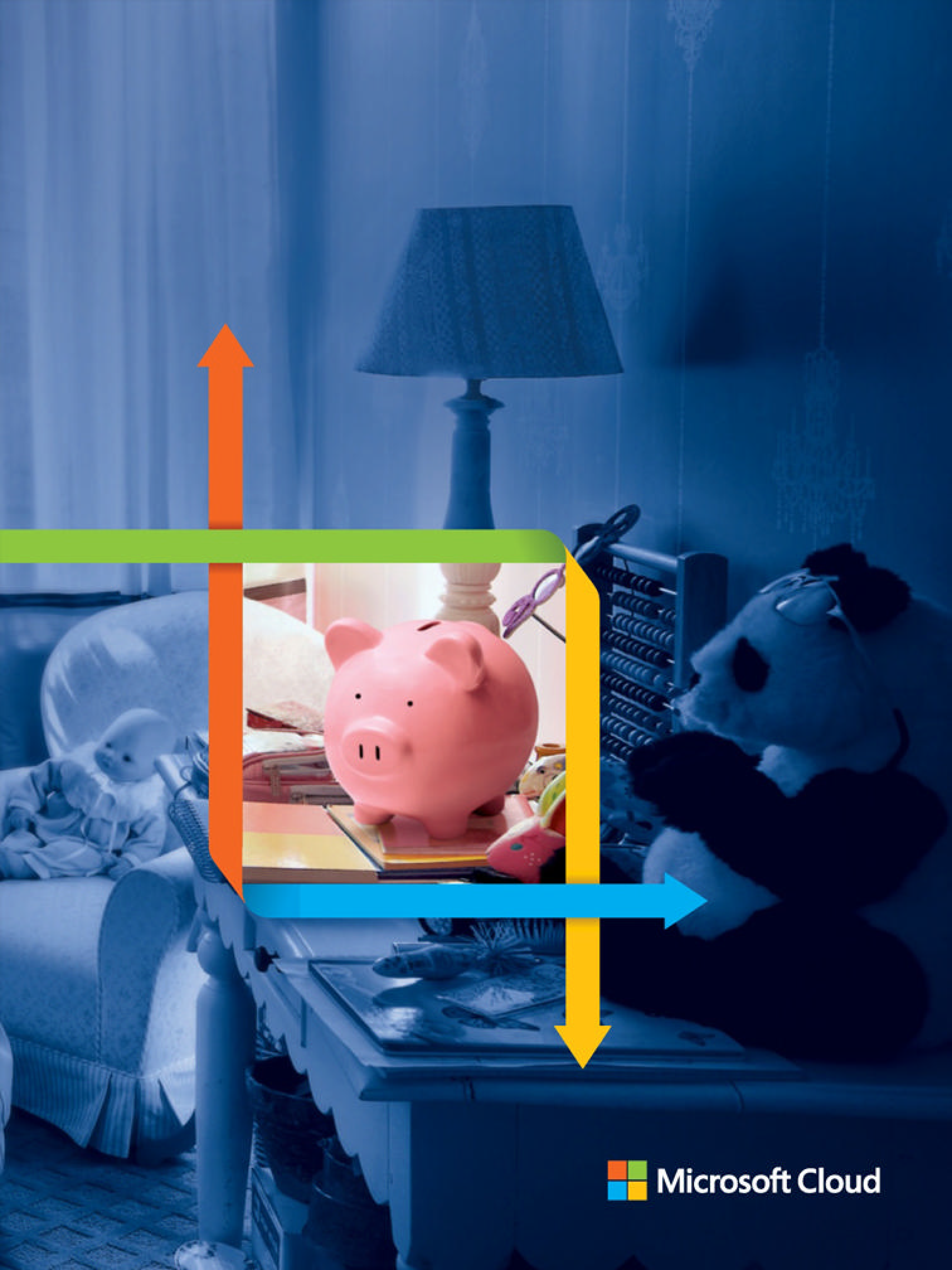
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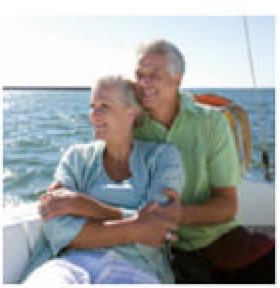
TAX GUIDE 2015

Everything you need to max out your refund, avoid classic filing flubs, and relieve the hassle of tax prep. ***money.com/taxguide***

EARN MORE MONEY NOW

With the job market (finally) improving, employers are working harder to hang on to talent. That makes this the best time in years to boost your paycheck. We offer tips on asking for a raise, negotiating a salary, closing your own gender gap, and more at ***money.com/careers***

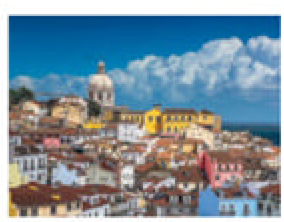


RETIRE WITH MONEY

Sign up for our new weekly newsletter from editor-at-large Penelope Wang at ***money.com/retirewithmoney***

MORE BEST PLACES TO RETIRE ABROAD

Check out an expanded slideshow of the most popular places for an American expat retirement adventure. ***money.com/retireabroad***



MILLENNIAL MONEY MINUTE

MONEY's young staffers debate the financial dilemmas facing their peers—like whether or not to cut the cable cord. ***money.com/video***

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What if I can't maintain my lifestyle?
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Money

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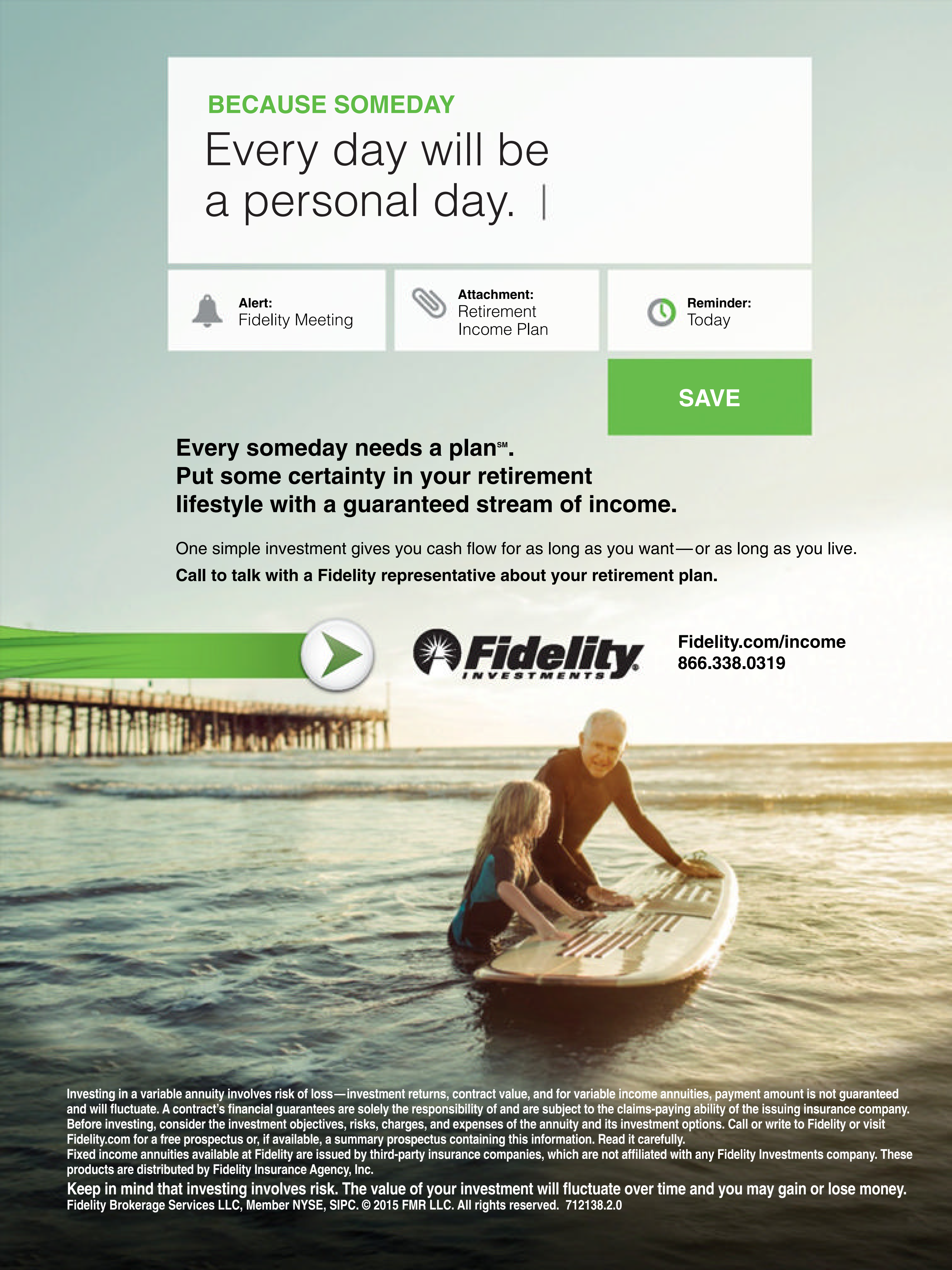

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Write the Editor: editor@moneymail.com

EDITOR'S NOTE

A New Era. *The Same Mission*

FRESH FACES: NEWLY MINTED EDITOR HARRIS (SEATED) WITH DEPUTY EDITOR ELLEN STARK

AS A YOUNG WRITER at MONEY in the mid-'80s, I often heard editor Marshall Loeb sum up the magazine's mission in a single sentence: "MONEY helps readers earn more money, invest profitably, save prudently, spend sensibly and pleasurably, and enhance their careers." He liked to remind staffers of both our mandate—we dubbed it Marshall's mantra—and our audience, which he described as "people like you and me."

A lot has changed since then. Bull markets have come and gone, a little thing called the Internet has transformed our lives, baby boomers are yielding cultural hegemony to their millennial kids, and Taylor Swift rides the top of the pop charts, not Michael Jackson. In the intervening years, I left MONEY to work for other publications and co-write a personal finance book, then returned to the fold in 2004. Now roles are shifting again: With this issue, I become the seventh editor—and first woman—to lead the magazine.

What has remained constant is the mission. To restate—maybe I'll make it Harris's mantra—we strive to help you better manage your money so you can live the life you want. Because no matter what your aspirations, whether it's to live in a nice home, educate your children, travel, retire in comfort, make a difference in the world—it all takes money. Investing, saving, working, and spending smartly are simply the tools that help get you where you want to go.

We know because, as Marshall said so many years ago, we are you. We face the same challenges as our readers in our personal lives and share the same goals. And we use those aspirations and experiences to inspire and inform our stories.

Of course, every editor brings his or her own sensibilities and passions to the job and makes changes that reflect them. In the coming months I hope to put my stamp on the magazine and our website, money.com, introducing new features and franchises to help you meet your goals.

Please let me know what's on your mind so we can better serve your needs. I'd love to hear from you.

Diane Harris

DIANE HARRIS
EDITOR

twitter.com/dianeharris

PHOTOGRAPH BY SHAYLA HUNTER

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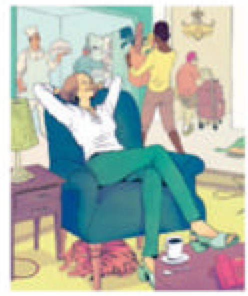
LETTERS & COMMENTS



RE: HOW I OUTSOURCED MY LIFE [MARCH]

What a great article. I've often wondered how outsourcing works, and now I know. Cybele Weisser combined good, easy-to-understand information with some real-life humor. Her story shared a glimpse into the type of daily struggles we can all identify with. Well done!

SCOTT OAKLEY, *Phoenix*

GET IT DELIVERED

Re "How I Outsourced My Life" [March]: Ms. Weisser, don't quit on your quest to outsource meals! Instead, try Gobble, which delivers all the ingredients you need. You can get a range of options, and they truly take 10 minutes to pull together.

AMANDA FIELDS
San Diego

A JUDGMENT CALL

It was refreshing to read Campbell Harvey's comments on rebalancing in "Can You Really Beat the Market?" [March], especially when he said, "Use your judgment." Virtually every financial planner blindly recommends 60% stocks and 40% bonds for those of us who are about to retire. For me, using sound judgment today means keeping a good part of that 40% in cash, not bonds.

WILLIAM ROBINSON
Far Hills, N.J.

PARTING WORDS

Re "Editor's Note" [March]: Thank you for your 17 years of service to MONEY and dedication to your readers, Mr. Matters. I have been a reader for 21 years and appreciate all the advice and insight.

DAVE OLSON
Lawrence, Kans.

CHRISTINA UNG

FIRST

of median income needed to cover health care costs

Ouch! Employees' share of medical expenses, defined as premiums plus deductibles, gobbled up nearly 10% of the median U.S. income in 2013, vs. 5.3% in 2003, says a new report from researchers at the Commonwealth Fund. And when you factor in workers' other out-of-pocket costs, such as co-pays and co-insurance, that burden grows even larger. Still, there are ways to save.

A HEALTHY SAVINGS

KNOW WHEN TO GO Need care but can't get in with your doc? Rather than go to the ER, try a cheaper option, like an urgent-care clinic, says physician and financial planner Steven Podnos. Telemedicine is also a good alternative; 18% of big employers now offer it, and in some states doctors can prescribe over videochat.

COMPARISON SHOP According to Mercer, 77% of large firms offer tools to help employees compare costs from various providers. Have access to one? Use it. A study from *JAMA* found that such tools helped save an average of $125 on advanced imaging services.

CHALLENGE BILLS Scan statements for double billings and other errors. Or search billadvocates.com for a pro to dispute charges on your behalf. Most take a percentage of the amount cut from your bill, so you won't owe unless they're able to help. —KARA BRANDEISKY

PROP STYLING BY BRIAN BYRNE; HAND LETTERING BY MILENA DESENNE

Photograph by GREGORY REID

Seven ways you can protect your privacy online: ***money.us/moneyprivacy.***

RETIREMENT

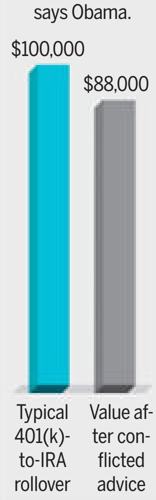
Obama Targets Advisers' Bite

PRESIDENT OBAMA has taken a stand on the ethical duties financial advisers owe their clients when they recommend products like mutual funds and annuities. In February the administration proposed new regulations that would require professionals giving retirement investment advice to act in the best interests of their clients—a guideline known as a "fiduciary standard."

That may seem like a no-brainer. But in fact, many investment pros, including stockbrokers, don't have to give clients the best advice on products they offer. Instead, they're free to sell securities generating the heftiest profits and commissions, as long as those investments are judged "suitable" for a client based on factors like age or risk tolerance. Obama argues that these investments can end up costing retirees thousands of dollars, while Wall Street firms and big insurance companies argue that tougher rules would deprive middle-class investors of advice. —IAN SALISBURY

COST OF CONFLICTS

Higher fees eat away at the value of 401(k) rollovers, says Obama.



NOTE: *Figures are for 2012 IRA rollovers, people ages 55 to 64.* ***SOURCE:*** *Council of Economic Advisers*

PRIVACY

WEBSITES SPILL HEALTH SECRETS

Raising worries about online privacy, a new study indicates that many health-related web pages leak information about your health concerns.

In a study of search results for 1,986 diseases, University of Pennsylvania Ph.D. student Timothy Libert found that on 91% of the pages, third parties like social networks and advertisers could access information about who was viewing the content. Seventy percent of web addresses revealed information about specific diseases viewed—info that Libert says data brokers (which sell people's profiles to marketers) may be able to match with you personally.

Absent stronger privacy laws, Libert recommends browser extensions, such as Ghostery and Adblock Plus, that block data leaks. "They don't catch everything," he says, "but they catch a lot." *—KARA BRANDEISKY*

QUOTED

"It turns out that people find potential to be exciting."

Stanford School of Business *professor Zakary Tormala, co-author of a study that found that people preferred job applicants described as showing great promise over those described as having a great record of achievement*

PHOTOGRAPH BY TOMOHIRO IWANAGA/GETTY

Illustration by **RICHARD MIA**


A STAR ALLIANCE MEMBER
Tight deadlines.
Hard day.
Soft landing.
Air travel engineered around you
Nonstop you
Make your time with us all yours. Because we engineer your travel experience to be exactly what you need it to be – from the last checked email to your first taste of relaxation. Lufthansa wants you to sit back and enjoy your trip even before you arrive at your destination.
Lufthansa
LH.com/us/nonstopyou

SAVE 18% VS. 2014

Europe Gets Cheap

The greenback is on a roll, gaining superstrength against the euro and other continental currencies. Go this spring to cash in on the mighty dollar. —STIRLING KELSO

KRAKÓW

Poland isn't part of the eurozone, but Kraków is still a good deal, coming in at No. 4 on the website Price of Travel's 2015 ranking of affordable continental cities. This spring, though, U.S. visitors will find even better prices, with the dollar up 20% or so against the zloty over the past 12 months. Rooms at the Hotel Gródek in the charming old town start at $132 in April, down $167 from a year ago. Plus, you'll slice a few dollars off the city's already reasonable activities, like Chopin concerts at the Bonerowski Palace ($15, vs. $18 in 2014).

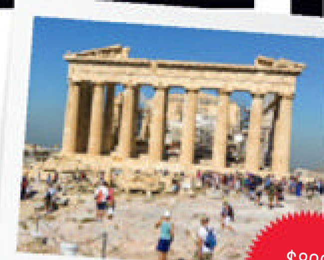
MORE THAN 20% OFF

PARIS

Even the notoriously expensive City of Light is now more affordable thanks to the strong dollar, says Ellison Poe of Poe Travel. Take the Hôtel Luxembourg Parc in the central Saint-Germain-des-Prés district. Rooms for April cost $293, vs. $357 a year ago. Still too pricey? Try the outer 10th and 11th arrondissements, hot areas for up-and-coming hotels and restaurants. At Generator Paris, a new, design-centric hostel in the 10th, private rooms are $55 this spring (an identically priced room would have cost $68 last April). Use your savings to splurge on an elegant meal, like the $62 tasting menu at the trendy Bones eatery.

ATHENS

In general, the currency swings haven't done much to make flights more affordable. Fares to Greece, however, have been reasonable lately, as airlines offer bargains to lure travelers during the spring shoulder season. "I see deals like $800 flights on Turkish Airlines from New York or $900 KLM tickets from LAX," says Jeff Klee of CheapAir.com. For a hotel, try Athens Gate, overlooking the Temple of Olympian Zeus, says Mina Agnos of Travelive. Rooms start at $148 in April (vs. $206 in 2014).



$800 FLIGHTS

CLOCKWISE FROM TOP: PHOTOGRAPHS BY CHRIS SORENSEN/GALLERY STOCK; KEN WALSH/GETTY; PETER PROBST/ALAMY

Manage Your Money Abroad

Make the best of today's stellar exchange rate with these smart moves.

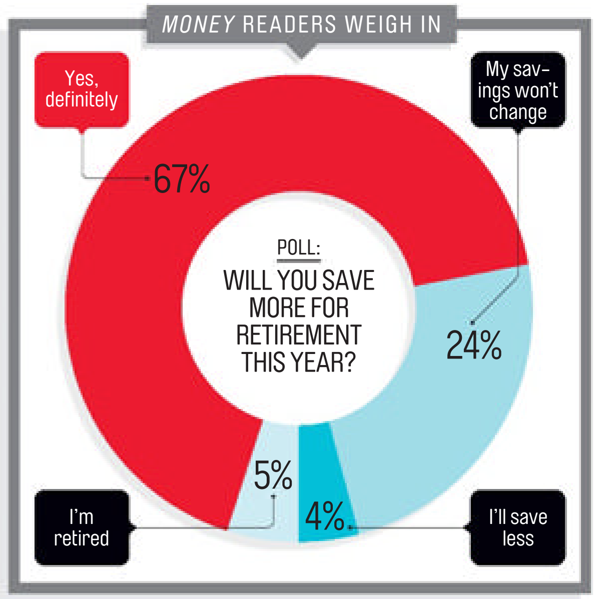
STICK WITH THE LOCAL CURRENCY
Refuse offers to pay in dollars when you use your credit card, says Matt Schulz of CreditCards.com. Those transactions rarely give you the best rate.

SKIP FOREIGN FEES
Choose a credit card with no foreign transaction fees. Chase Sapphire Preferred and the Arrival Plus World Elite MasterCard from Barclaycard are good options.

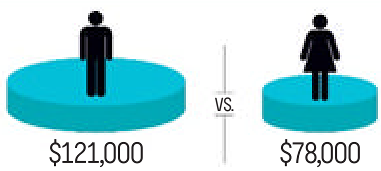
FIND A PARTNER
Seek out your bank's international partners, where you'll pay fewer fees to use your ATM card. Say you use Bank of America. Try BNP Paribas or Deutsche Bank.

Next month's question: ***What improvement would you most like to make to your home this year?*** *To cast your vote, go to* ***Money.com.***

How Does Your Nest Egg Stack Up?



AVERAGE RETIREMENT ACCOUNT BALANCE



MOST LIKELY TO CONTRIBUTE TO A 401(k) OR OTHER EMPLOYER PLAN: ❶ GEN Xers ❷ BOOMERS ❸ MILLENNIALS

SWITZERLAND IS NO. 1

HOW THE U.S. RANKS GLOBALLY, BASED ON RETIREMENT SECURITY

CITIES WITH THE HIGHEST AVERAGE 401(k) SAVINGS RATES

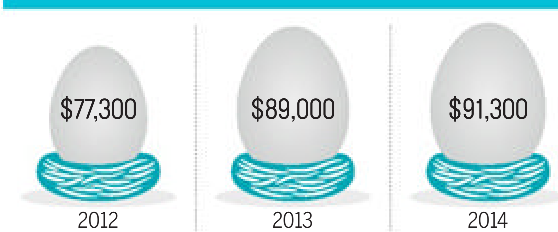
1. San Francisco: **14.6%**
1. San Jose: **14.6%**
2. Raleigh, N.C.: **14.0%**
3. Houston: **13.9%**
4. Hartford, Conn.: **13.8%**

AVERAGE 401(k) CONTRIBUTION IN 2014

$9,630

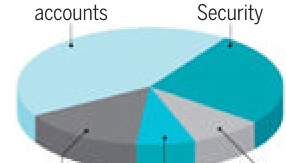
UP 15% FROM 2009

AVERAGE 401(k) BALANCE IN THE FOURTH QUARTER



WE PREPARE DIFFERENTLY: While men tend to have bigger retirement account balances (thanks to higher salaries), women are 10% more likely to enroll in a workplace plan, and they save at higher rates (up to 12%) than their male colleagues. However, just 56% of women own mutual funds and stocks in their accounts, vs. 73% of men.

WORKERS' PLANNED PRIMARY RETIREMENT INCOME SOURCE



AVERAGE EMPLOYEE RETIREMENT-SAVINGS RATE

8.1%

HIGHEST SINCE 2011

NOTE: Online poll conducted in February; 517 responses. Retirement security index based on health, material well-being, finances, and quality of life. ***SOURCES:*** *Fidelity, Natixis Global Asset Management, Lincoln Financial Group, TransAmerica, Vanguard*

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READERS TO THE RESCUE

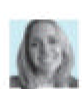
"I'm a small-business owner. Should I use extra funds to throw an employee party or give bonuses?"

Go with bonuses. You can build camaraderie and teamwork other ways. Passing on the extra money will earn you goodwill and give employees positive feelings about their jobs.

ROB JOHNSON
Mentor-on-the-Lake, Ohio

I believe you could satisfy both goals by having an inexpensive lunch and presenting nonmonetary awards, such as a paid day off for reaching or exceeding company goals. That way people could network with colleagues and be rewarded.

THOMAS ALLISON
Woodbridge, Va.



Bonuses are great, but they don't keep employees happy. No matter how flexible our hours, we spend more of our week at work than at home, and it's so important to enjoy your environment. For these reasons, I believe that getting your staff together and making connections are far more important than extra money at the end of the year.

LILY ESKANOS-ANDERSON
Denver

I think most employees would see more value in using bonus money in a way that's meaningful to them, rather than on a party with people they already see every day.

TALAT MANGLA
Chantilly, Va.

Why not divide the budget and do both? Perhaps the event will be less lavish, but you could make a surprise announcement and hand out the bonuses at the event. They'd remember that party!

SYDNEY CHHIV
Modesto, Calif.

THE EXPERT SAYS

Consider what type of workforce you employ. Say most of your workers are professionals who earn high salaries: A company event may be more valuable than a nominal bonus, especially after you factor in taxes. But if you employ mostly low-wage workers, they'll likely prefer the additional compensation.

BARBARA WELTMAN,
attorney and small-business adviser

Want solutions to a financial dilemma in your life? Email your question to ***social@moneymail.com.***

SEE "RETIRE HERE —AND SAVE!" (PAGE 78)

FACEBOOK QUESTION OF THE MONTH

WHERE WOULD YOU MOST LIKE TO LIVE WHEN YOU RETIRE?

"I want to live in Charleston, S.C., but keep a condo in Cincinnati so I can go to Reds games all summer long." —ANDY RICHTER

"Spain, but particularly Barcelona. I fell in love with that city the first time I visited, and I can't wait to get back." —CATHI DETHOMAS

"I fantasize about moving in with my children—as payback!" —TAMI JOHNSON

"Vegas, baby!" —GARY PHILLIPS

"I want to stay in my hometown of Huntington Beach, Calif. You can't beat the weather—it's like being on vacation permanently." —CRYSTAL BYRUM

"Vietnam. It's affordable, and has great beaches and awesome food!" —BEN SMITH

"Deep, deep in the woods—with a very long driveway." —TRISHA CRAIG

"I'm happy where I am. I'm deliriously in love with the Rocky Mountains." —CLAUDIA MCGEE

PHOTOGRAPHS BY RYAN MCVAY/GETTY (COPIER); ISTOCK (STREAMERS)


Are you asking enough questions about the way your wealth is managed?
In life, you question everything. The same should be true when it comes to managing your wealth. Do you know what your broker is basing their recommendations on? Do they stand by their word? Do you know how much you're paying in fees? And how those fees affect your returns? Ask your broker, and if you don't like their answers, ask again at Schwab. We think you'll like what our Financial Consultants have to say.
Call 1-866-6SCHWAB or stop by a branch to talk to a Financial Consultant today.
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Plan

What to Do After a Leak

ANOTHER DAY, ANOTHER DATA BREACH. HERE'S HOW TO TELL WHEN WORRY IS WARRANTED. *by* **Kara Brandeisky**

PROP STYLING BY SHANE KLEIN

AT THIS POINT, you can bet a hacker has made off with some of your personal information. The number of data breaches hit an all-time high in 2014, according to the Identity Theft Resource Center. An estimated 86 million records—including credit card and debit card numbers—were compromised, with Kmart, Home Depot, and Staples among the companies that saw the greatest data spillage.

Perhaps the worst scare yet, however, came in early 2015, when health insurer Anthem reported that hackers accessed its customers'

Photograph by **YASU+JUNKO**

Social Security numbers—pure gold to an ID thief. "This one is a nightmare," says Ed Mierzwinski of advocacy group U.S. PIRG.

But you may be too weary to heed the wake-up call. Almost a third of Americans who receive breach notifications ignore them, privacy research group Ponemon Institute has found. While you can't panic over every breach, you also can't afford to get complacent. How much to worry and what action to take depend on what data you learn have been compromised.

YOUR SOCIAL SECURITY NUMBER

How much to worry: A lot. A fraudster could apply for credit in your name, and you could spend years repairing your records, says Paul Stephens of the Privacy Rights Clearinghouse.

What to do: Check your credit reports ASAP for unusual activity. You're entitled to one free copy per year from each of the credit bureaus (Equifax, Experian, TransUnion) via AnnualCreditReport.com. At minimum place a free 90-day fraud alert with one of the bureaus, which will inform the other two. This alert tells lenders to confirm your identity before extending credit.

A better move: Freeze your credit, preventing anyone from getting loans in your name. On the downside, you'll pay up to $10 per credit bureau to place a freeze and up to $12 per bureau to lift it when *you* apply for new credit. A hassle, yes, and costly. "But for someone worried about ID theft, it's the best $30 you can spend," Stephens says.

A PASSWORD

How much to worry: Depends on what kind of site was hacked and whether you reuse passwords (61% of people do, identity protection firm CSID found).

What to do: Ideally, you'd change your password on the breached site and all others on which you used the same code. But if the idea of that much work leaves you paralyzed, the least you need to do is change codes for the most critical accounts (like email and financial sites), says Joseph Bonneau, technology fellow at the Electronic Frontier Foundation. And where it's an option, set up two-factor authentication, which requires you to input an additional piece of information to log in. That will make it harder for hackers to break into your account next time a password is compromised.

YOUR CREDIT CARD NUMBER

How much to worry: Very little. When criminals steal just a credit card number, you're not liable for any fraudulent charges, notes Chi Chi Wu of the National Consumer Law Center. With a debit number, you're not liable for unauthorized charges you report within 60 days of getting your statement, and often banks will make you whole even if you don't report until later. (The laws are different when a card itself is stolen, but, again, many issuers have zero-liability policies.)

What to do: Simply read your statements carefully, says U.S. PIRG's Mierzwinski. Call the issuer if you see charges you don't recognize, he says, "though usually your bank calls you first." Don't assume credit monitoring—which many breached businesses offer to customers for free—will do the job for you, Wu says. The services only tell you when a lender checks your credit, not when charges are run up on an existing account.

OTHER PERSONAL INFORMATION

How much to worry: Very little. Criminals can't commit ID theft with just your name, birth date, or email—though they may try to "phish" for more info by posing as legitimate businesses.

What to do: Stay vigilant: Avoid clicking on links in emails. And when a financial institution calls, hang up and call back. Better to seem rude than get rooked.

Don't Freak Over a Credit Card Leak

You're more likely to experience long-term problems when a criminal uses your SSN to open new accounts in your name.

SOURCE: *U.S. Department of Justice*

Their Goal: To Get Set Up for an Early Retirement

by Paul Keegan

GETTING REAL Carlos and Jessica's real estate purchases have put their daily finances at risk.

CARLOS O. GOMEZ, 38, wants to retire at 55. To that end, the high school assistant principal from Oceanside, Calif., puts $11,100 of his $106,000 salary into retirement accounts that include a pension expected to pay $52,000 a year. With another $68,100 he and his wife, Jessica Grimmett-Gomez, 34, have saved, he's tried all kinds of growth strategies—from cautious (a fixed annuity at 3%) to risky (two Roth IRAs in Ford stock).

He's also bought three rental properties over three years, though he now realizes that using $25,000 to buy the last in July was a mistake. The couple have very little cash. And with Jessica, a former dental assistant, staying home with their two toddlers, they don't have a lot of wiggle room in their income for emergencies. As a result, they've racked up $6,300 on credit cards, partly due to expenses on the rentals. "I was trying to make sure we'd have income in retirement," Carlos says sheepishly, "but I got overzealous."

WHERE THEY STAND

TOTAL ASSETS: $1,016,500 | **TOTAL LIABILITIES: $698,900**

$914,700	Real estate	$6,300	Credit cards
$68,100	Retirement	$6,700	Car loans
$23,500	Cars/personal property	$685,900	Mortgages
$6,300	Cash		
$3,900	Other		

FOUR FIXES

KEEP A CUSHION San Diego financial planner Scott Kilian says the couple's priorities should be paying off credit card debt and saving three months' expenses ($21,000) in cash. They can free up $1,000 a month by trimming retirement savings and reallocating discretionary spending to achieve both in about two years.

SELL THE RENTALS LATER With $78,000 tied up in equity, "another real estate crisis could impact their net worth dramatically," Kilian says. That said, the units are producing $338 in net income a month. So Kilian suggests waiting to sell until they have trouble finding tenants.

MIX THE MIX Their nest egg is now 60% in equities, 40% fixed income. Kilian says they can boost returns by going 80%/20%. They can surrender the annuity in his 403(b) at no penalty and divvy the money among stock and bond funds, then sell the Ford stock to buy the diversified **Vanguard Total World** (VT) fund.

DELAY THE DATE To quit at 55, Carlos needs $1.3 million, as his state pension makes him ineligible for Social Security. That means saving $55,000 *more* a year—which is unlikely. But if they up their annual savings to $33,000, he can quit at 62. Once the cash fund is built and debt paid, they can redirect the $1,000 a month. And if Jessica returns to work full-time—which she said she'll consider—they can hit the goal. ■

WARDROBE STYLING BY DIANA L. CHAN; GROOMING BY LINDA ZIRKUS

Photograph by SCOTT COUNCIL

Q

RETIREMENT

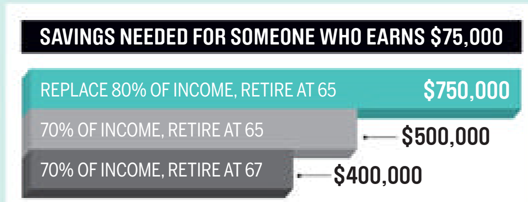
I'm 52 and single and have no savings for retirement. What can I do?

—ANITA, *West Long Branch, N.J.*

A Luckily, you have great opportunities to catch up. People 50 and older can stash $24,000 in a 401(k) in 2015 (vs. $18,000 for those younger) and $6,500 in an IRA (vs. $5,500 for younger folks).

The amount of savings you need to retire at 65 and maintain your standard of living may seem daunting. Based on benchmarks from **investment adviser Charles Farrell, author of *Your Money Ratios*,** you need 10 to 12 times your current income to provide 80% of that income in retirement, assuming you'll withdraw 5% a year and get Social Security. But you can seriously reduce how much you need by scaling back your retirement lifestyle or delaying your quit date (see graphic above). Saving 17% of a $75,000 salary (a percentage that includes employer match) over 15 years gets you close to $400,000, assuming a 6% annual return.

Pushing back your start date or planning to live on less—or both—can reduce the amount you need to save.



SOURCE: *Charles Farrell, Northstar Investment Advisors*

Q

HEALTH INSURANCE

How do I drop Medicare Part B? I have health care through the VA so I don't need it."

—JERRY BRIER

A Don't drop that coverage! "If you're eligible for Medicare, you should not rely solely on VA benefits for your health care needs," says **Medicare Rights Center spokesperson Mitchell Clark.**

The two coverages are complementary. VA health care is a benefit, not insurance, so you can receive care only via a VA facility. Medicare Part B insurance helps pay for care outside the VA.

Part B is valuable if you have an emergency and need to be taken to a non-VA hospital. Also keep in mind your local VA facility may be limited in what procedures it can perform. Medicare allows you more options.

Finally, know that if you do drop coverage—which can be done simply by calling Medicare—and later change your mind, the premium rises 10% for every 12 months you went without.

Q

CAREERS

How do I handle a co-worker who always complains about our boss?

—DARIN, *Arlington, Va.*

A The right tack depends on the nature of the complaint, says **Dana Brownlee, president of Professionalism Matters.** If you agree with your co-worker and want to help, talk about how you deal with the issue. Or encourage your colleague to raise the problem with the boss—and suggest a tactful way to do it.

Is this person a chronic bellyacher? Beware of joining the gripe sessions: Your co-worker may pass on the message to others that you're also unhappy, which could get back to the boss. *And* you'll get stuck listening to later rants. "Complaining is like fire, it needs oxygen," says Brownlee. "Complainers seek out people who will feed the fire." Make it clear you're not interested by changing the subject or saying you don't have time to chat.

By Donna Rosato and Kerri Anne Renzulli

Read more answers from Ask the Expert and submit your own question about personal finance at ***money.com/expert.***

Instill Gratitude, Not Attitude

AS PARENTS WE WANT TO GIVE OUR CHILDREN EVERYTHING—BUT HOPE THEY DON'T START TO EXPECT IT.

by Farnoosh Torabi

YEARS AGO, after I'd gone off to college, a job opportunity led my parents out of the affluent suburbs of Philadelphia and into an economically diverse town in Massachusetts. They were happy for the move because it offered a more affordable life with the bonus of separating my younger brother, Todd, then 7, from the "spoiled rich kids."

In Philly my parents had rented a two-bedroom apartment while my brother's classmates lived in million-dollar homes. And it had become increasingly difficult to explain to Todd why he couldn't have the newest videogame or why we didn't go to Europe over spring break. "It was a bad environment for all of us," my mom recalls. The move was a blessing as my parents aimed to unspoil my brother.

No matter where you live, raising kids who appreciate the value of a dollar isn't easy—and it's only gotten tougher since my parents were doing it. "We're in a world that conspires against waiting," says Ron Lieber, author of *The Opposite of Spoiled: Raising Kids Who Are Grounded, Generous, and Smart About Money*. "So much is available so easily and for so much less money. It's easy to be in a situation where kids can get what they want without having to sweat it out."

But what if your child is already obsessed with "stuff"? Can you reverse the trend before you end up with an entitled adult? Experts say yes (phew). Start with these steps.

SHARE YOUR NARRATIVE

Explain to your kids why they can't have certain things by laying out your values and priorities. Maybe you want to uphold attitudes you learned from your hardworking immigrant parents. Perhaps you're saving for a bigger home. Sharing your stories and showing you're maintaining the values yourself "can help take some of the sting out," says Lieber. "Kids like knowing they're part of a continuum."

SET LIMITS ... TO AN EXTENT

Rather than rejecting your child's wants outright, allow him to make choices—and learn about trade-offs. With a teen, for example, you could set a clothing budget and let her decide how to spend it. You could help a littler one create a list that ranks desired toys in order of importance.

MAKE THEM EARN IT

Requiring kids to earn some wants through chores or a job can help curb entitlement, experts say. Case in point: When Susan Beacham, founder of financial education firm Money Savvy Generation, sent her two daughters to college, she and her husband paid for tuition but refused to cover extras like sorority dues—for those costs, the girls had to get jobs. Beacham found that this motivated her daughters to dispute certain charges they didn't think were fair. "We gave them a sense of personal responsibility," says Beacham. "That value would not have surfaced if they hadn't been spending their own money." ◻

Contributing editor Farnoosh Torabi is the author of When She Makes More. *Catch her columns and videos at Money.com.*

Illustration by CHRIS GASH

How to Land More Money for College

WANT A BIGGER FINANCIAL AID PACKAGE? THESE MOVES CAN STRENGTHEN YOUR APPEAL. *by Kim Clark*

THERE'S A NEW spring ritual for parents of high school seniors: financial aid appeals.

Increasingly, college acceptance letters that make your kid shout for joy are likely to make you want to cry for help. On average, schools are giving only 70% of the grants that families, on top of their expected contributions, need to cover the cost of attendance, based on data from Peterson's. Most colleges, especially public universities, simply don't have enough money to fully fund every qualified student.

You may be able to win more aid with a crafted appeal. It's not a sure thing: If your kid has neither exceptional talents nor above-average test scores compared with other applicants, don't expect an above-average merit grant. And colleges may *reduce* aid offers in response to misguided appeals, says Al Hoffman, director of the College Funding Service Center, a financial aid consultancy in New London, Conn. "You don't get the dance unless you ask for it," he says, "but you've got to be careful."

Follow these tips to draft an appeal letter more likely to win extra grant dollars:

Be realistic about your need. Showing legitimate reasons the school overestimated how much you can afford (such as recent pay cuts or increased medical expenses) is the strategy most likely to win sympathy—and additional aid. Discretionary expenses, however, such as high credit card or car payments, generally aren't persuasive, warns Brad Barnett, senior associate director of financial aid and scholarships at Virginia's James Madison University.

Time your request correctly. Colleges carefully monitor who is sending in deposits and by late April have a good sense of whether they're on target to fill their class, explains Robert Massa, senior vice president for enrollment at Drew University in New Jersey. His advice: File your appeal with your first-choice school in mid-April. The schools that are over-enrolled by then probably won't give you more money anyway, but the others might be worried enough to reconsider the aid package they've offered.

Show academic improvement. Many merit grants are based on grades and test scores reported early in the fall of a student's senior year. Some schools may offer higher merit aid if a student brings his score up on the ACT or SAT later in his senior year, says Deborah Fox, a college planning adviser in San Diego. Louisiana State University, for example, takes scores through April 15; University of Maine, through May 1.

Leave the door open. If financial reasons compel your child to turn down a college she really wants to attend, she should write a polite letter declining the offer of admission and explaining the reason. Some colleges that didn't fill their classes last spring circled back in May to offer increased aid to certain students who had rejected them, says Hoffman.

Most Aid-Friendly Schools

Of the 665 schools in MONEY's Best Colleges ranking, these offer the most generous combination of merit- and need-based aid.

SCHOOL	AVG. FAMILY DEBT UPON GRADUATION	MERIT AID PER UNDERGRAD
VANDERBILT UNIV. ▸ Tenn.	$6,649	$2,536
RICE UNIVERSITY ▸ Texas	$8,447	$2,380
DUKE UNIVERSITY ▸ N.C.	$9,694	$1,425
DAVIDSON COLLEGE ▸ N.C.	$10,842	$2,607
GRINNELL COLLEGE ▸ Iowa	$11,325	$2,163

NOTES: *Debt figures are estimated total of student and parent loans. Merit-aid figure is average per undergraduate, not recipient.* ***SOURCES:*** *Peterson's, U.S. Department of Education, MONEY calculations*

I Hate Annuities…and So Should You!

The Soothing Sound Of Guaranteed Income

Many *Money* investors currently own or are considering annuities. After all, they are sold as safe investments, offering dependable and predictable returns, no matter what the market does. And that sounds very appealing, especially after suffering through the worst bear market since the Great Depression. So what's the problem with annuities?

What You Might Not Know About Annuities Could Come Back To Haunt You

Before you put your hard-earned money into an annuity, or if you already own one, please call 1-800-695-5929 for a special report, *Annuity Insights: Nine Questions Every Annuity Investor Should Ask.* It could help save you hundreds of thousands of dollars and untold financial heartache.

The vast majority of annuities are really complicated insurance policies that make it very difficult to fully understand the implications and unintended consequences. And once you buy into an annuity, it can be a very difficult and potentially very costly investment decision to reverse. That's why it is vital you "look before you leap" and ensure that you have "your eyes wide open" before you purchase an annuity. And if you already own an annuity, this free report is just as valuable as it can help you sort out the good, the bad and the ugly aspects of annuities.

What You'll Learn From This Free Report

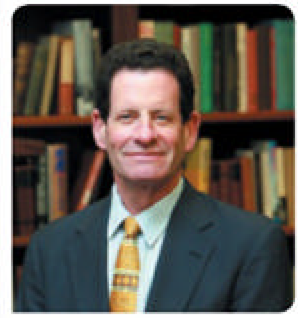
- The different types of annuities and the advantages and disadvantages of each
- Why annuities can be complex to understand
- What you need to ask an annuity salesman when evaluating his product
- The inflation risk, tax implications, estate planning considerations and typical annuity fees

Stuck In An Annuity?

Because people often regret their annuity decision, Fisher Investments has helped many investors extract themselves from annuities. In fact, if you have a portfolio of $500,000 or more, we may rebate some or all of your annuity surrender penalties. Rebates average over $13,000.* Please call for details and to see if you might qualify.

About Fisher Investments

Fisher Investments is a money management firm serving successful individuals as well as large institutional investors. With over $58 billion** in assets under management and with a track record of over 35 years in bull and bear markets, Fisher Investments uses its proprietary research to manage money for investors.



If you own an annuity or if someone is trying to sell you one, I urge you to call for your free report. Annuities can lock you into low returns, complicate your tax situation, tie up your wealth and hit you with high fees. If you have an annuity, my team can help you decide if it is right for you. And if it isn't, we might be able to help you get out of it and even help you offset some of the annuity surrender fees.*

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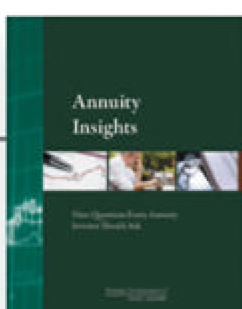
Ken Fisher

– CEO and Co-Chief Investment Officer, Fisher Investments

– *Forbes* "Portfolio Strategy" columnist for 30 years

– Author of 10 financial books, including four *New York Times* bestsellers



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Blending Talents

AFTER HIS FIRST BEER BUSINESS DIDN'T WORK OUT, KENNY THACKER REALIZED THE VALUE OF DRAFTING PARTNERS WITH COMPLEMENTARY SKILLS. *by Kerry Hannon*

KENNY THACKER, *43, STANARDSVILLE, VA.*

THEN	CONSTRUCTION WORKER
NOW	CO-OWNER OF A BREWPUB

UNTIL 2008, Kenny Thacker had spent his career working in construction around the tiny town of Stanardsville, Va. But when the homebuilding business came crashing down that year, he found himself without a job.

After two frustrating years looking for a new one, he decided to build something other than homes—his own beermaking business.

An idea had been brewing in the ale aficionado's mind for a while, thanks to a favorite sitcom. "Ever since I watched *The Drew Carey Show* and they were making Buzz Beer, I thought, 'I could do that,'" he says.

Photograph by MELISSA GOLDEN

WARDROBE STYLING BY POLLY SPADAVECCHIA; GROOMING BY KIM REYES

PERFECT BLEND Thacker (center) is chief brewer at Beer Hound; Becker (left) and Cash handle the business end.

So, in 2010, Thacker and his wife, Leslie, tapped $45,000 of home equity to buy a local supply shop for home-brewing hobbyists. Immediately he began trying out recipes. By 2012 he had grown confident in his brewing, and, with a $25,000 loan from his dad, opened the Beer Hound Brewery behind the shop. Despite a small following, though, Thacker found it tough to turn a profit due to the rural location.

Then one of Thacker's customers had an idea to save the brewery. Frank Becker, 33, a general manager of a casual-dining franchise group, suggested they team up with his pal, Rick Cash, 56, who'd retired from management at Philip Morris and was looking for a new venture. Together they could reopen Beer Hound in another locale. Cash had capital; Becker had sales and operations expertise; Thacker could be master brewer. He leaped.

After spending a year honing a business plan, the trio leased space in historic Culpeper, a growing tourist town. The new Beer Hound Brewery opened last fall, with 10 of Thacker's beers on tap. The kegs were empty in 36 hours. Revenues are now on pace to top $500,000 in 2015.

While closing his first businesses was tough, Thacker says "the venture was an amazing education." The lesson? Sometimes three heads are better than one: "I realized there was no way I could brew the best beer, market it, pay the bills, *and* plan future stuff all by myself."

BY THE NUMBERS

6 years

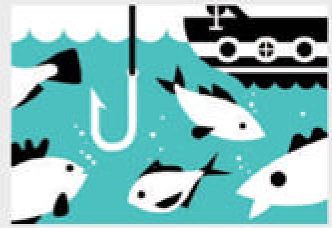
TIME BEFORE HE TOOK A FULL SALARY. The thrifty Thackers and their kids, now 12 and 15, mostly lived off savings and Leslie's $60,000 pay. (She works as a clerk for a school district and edits a medical journal.) With the new location and influx of capital, he now earns $50,000.

$100,000

WHAT IT TOOK TO LAUNCH VERSION 2.0. The initial cash came from Cash, but he, Becker, and Thacker agreed to share ownership. Thacker and his wife together hold the majority of the shares (45%), although he didn't put any of his own money on the line in this iteration.

30%

ESTIMATED ANNUAL SALES GROWTH. The trio expects revenues to jump to $780,000 next year and $1.2 million in 2017. But the business plan does not call for a profit until 2018, as the group will be spending to expand brewing capacity and hopes to sign with a local distributor to service area restaurants and grocery stores.



STARTUP

HOW TO TELL IF THERE'S A MARKET

Think you've got a million-dollar idea? "Avoid the 'build it and they will come' fantasy," says Dave Mawhinney, co-director of the Center of Innovation and Entrepreneurship at Carnegie Mellon. First figure out if people will pay for what you want to sell.

START WITH RESEARCH. Gather existing market data compiled by industry associations, government agencies, and trade groups to assess whether there's a reasonable universe of clients.

MEET CONSUMERS. Get feedback on your idea through sites like AYTM.com, UsabilityHub.com, and UserTesting.com (plans start at around $50). Better yet, organize a focus group of target clients, says George Cook, a marketing prof at the University of Rochester. You might start with people who have commented on your competitors' Facebook pages.

SIZE UP THE COMPETITION. Talk to industry vets and influencers (see who's quoted in trade pubs) for insight on strengths and weaknesses of competitors. And use the tool at sba.gov/sizeup. Says Mawhinney: "You need to validate that your business solution is way better or way cheaper than others out there." —DANIEL BORTZ

Illustration by MIGUEL MONTANER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Invest

Go Against the Flow

THOUGH IT'S SCARY, YOUR BEST MOVE IN TODAY'S CHOPPY MARKET IS TO DO WHAT OTHERS FEAR. *by* **Taylor Tepper**

PROP STYLING BY SHANE KLEIN

TAKE A DEEP BREATH. After a whirlwind start to the year, you can be forgiven for feeling nervous about the state of the financial markets.

Yes, the Dow and the S&P 500 are back to setting record highs after sharp declines earlier this year. But stocks are still on pace for their most volatile year since 2011. Sure, plunging prices at the pump are good for consumers, but they've taken a hammer to energy stocks. And interest rates around the world keep sinking. While falling yields boost the value of older bonds in your fixed-income funds, they sure make it

Photograph by YASU+JUNKO

hard to generate any income (see "The Smart Way to Invest for Income" on page 63).

Rather than following the crowd that's selling on today's fears, take advantage of falling prices and do a little bargain hunting. Here are three places where that's possible.

THE ROCKY STOCK MARKET

The worry: In 2013 and 2014, the S&P 500 experienced daily swings of 1% or more about once every six trading days. So far this year, it's been one in three.

What the crowd is doing: Racing into low-volatility funds that focus on boring Steady Eddie companies like Procter & Gamble. As a result, the price/earnings ratio for stocks in the PowerShares S&P 500 Low Volatility ETF is 12% higher than the broad market. Yet "low vol" shares have historically traded at a 25% discount.

The smarter move: Look to an industry that's not particularly thought of as a safe harbor in a storm: technology. Mature tech anyway. "On a relative basis, older, established tech firms look really attractive," says BlackRock global investment strategist Heidi Richardson. Many tech giants, such as **Apple** (AAPL), trade at P/E ratios of around 15 or less.

They also have a ton of cash, which lets them invest in research and development while still paying dividends. Moreover, the recent volatility in stocks has stemmed from fears that the Federal Reserve may start hiking rates this year. Well, tech has historically outpaced the S&P 500 in the six months following rate hikes. Lean into this group through **iShares U.S. Technology** (IYW). Apple, Microsoft, and Intel make up more than a third of this ETF's holdings.

THE ENERGY CRISIS

The worry: Oil prices may not be done falling. UBS, in fact, believes that the price of a barrel of crude may not return to recent highs for another 60 months.

What the crowd is doing: Ditching blue-chip energy stocks, including giants such as Conoco-Phillips and Halliburton, which have sunk 20% to 40% lately.

The smarter move: Play the odds. The Leuthold Group found that a simple strategy of buying the market's cheapest sector—now energy, based on median P/E ratios—and holding on for a year has trounced the broad market (see chart). "Value surfaces without even needing a catalyst," says Doug Ramsey, Leuthold's chief investment officer.

You can gain broad exposure through **Energy Select Sector SPDR ETF** (XLE), which beat 99% of its peers over the past decade and charges fees of just 0.15% a year.

THE THREAT OF DEFLATION

The worry: Rates around the world will keep sinking, as conventional wisdom says deflation is a bigger threat than inflation.

What the crowd is doing: Pulling billions from products such as Treasury Inflation-Protected Securities that are meant to guard against rising prices—investments now yielding even less than regular bonds.

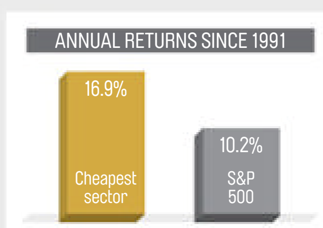
The smarter move: Embrace that lower-yielding debt, at least with a small part of your portfolio. Joe Davis, head of Vanguard's investment strategy group, says inflation may not spike soon. But the time to buy inflation insurance is when no one is scared, and it's cheap. Consumer prices would only have to rise more than 1.8% annually over the next decade for 10-year TIPS to outperform.

Conservative investors should look to short-term TIPS, which are less sensitive to rate hikes, says Davis. Vanguard Target Retirement 2015, for instance, allocates about 8% of its portfolio to the **Vanguard Short-Term Inflation-Protected Fund** (VTIPX).

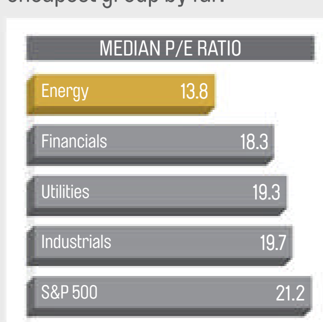
This won't seem fruitful—until, that is, inflation finally rears up. ■

Be a Cheapskate

Buying the lowest-priced sector in the S&P 500 and holding for a year has proved to be a winner...



...and energy is the market's cheapest group by far.



SOURCE: *The Leuthold Group*

Don't Reach to Grab New Stocks

THE IPO BOOM GIVES YOU LOTS OF HOT COMPANIES TO TAKE A FLIER ON, BUT YOU'LL MOST LIKELY FALL FLAT.

by Paul J. Lim

DO YOU REGRET MISSING OUT on the stunning debuts of Alibaba and Shake Shack? Are you now waiting to hail Uber or snap up Snapchat when they go public, as expected?

Before you jump in, remember that when you pick a stock, you're already taking a leap of faith—but with a newly public company, you're taking two leaps. First, do you really know enough about the business? Second, has the market had sufficient time to draw its own conclusions so that you are buying at a fairly rational price?

"Anything that's been trading for a while has been vetted by a whole host of investors," says John Barr, a manager with the Needham Funds. Not so at or just after an initial public offering, and that's why you have to tread carefully.

YOU'LL PAY FOR THE HONEYMOON

IPOs attract big headlines on day one, but surprises inevitably crop up. From 1970 to 2012, the typical IPO gained just 0.7% in its second six months, after the honeymoon effect had a chance to wear off. That's five percentage points less than other similar-size stocks, finds Jay Ritter, a finance professor at the University of Florida. The year after that, the average IPO lagged by eight points.

Chinese e-tailer Alibaba, which soared 38% on its first day in September, is getting its dose of reality a bit ahead of schedule. Shares are down 28% lately, after the company surprisingly missed revenue-growth forecasts.

THEMES GET OVERDONE

It's easy to be lured by a story. Shake Shack doubled on its first day, thanks to the buzz surrounding high-quality fast-food chains like Chipotle. But riding a food trend is hard. A decade ago, overexpansion killed investors' ravenous appetite for Krispy Kreme doughnuts, and the company's shares remain 56% off their peak.

Shake Shack has also entered a crowded battle for foodie dollars: the Habit Restaurants, Potbelly, and Noodles & Co. all went public recently, and all more than doubled in the first day. Odds are the market is overoptimistic about most of them. Since 2013, 15 stocks have doubled on day one; only two—both biotech firms—are trading above their first day's close.

The fact is, unless you gain access to an IPO at a great price at issuance, you can't view those stocks as buy-and-hold investments. And you should avoid any richly priced new stock altogether.

Shake Shack trades at 650 times its earnings. To justify that valuation, Ritter figures the burger chain must grow from 63 stores to nearly 700, each half as profitable as a Chipotle restaurant. That's a big leap indeed, given that Shake Shack locations aren't even a third as profitable as at the moment. ◻

Assistant managing editor Paul J. Lim is the author of three books on investing.

Illustration by TAYLOR CALLERY

X-Ray: Vanguard Total Intl. Bond

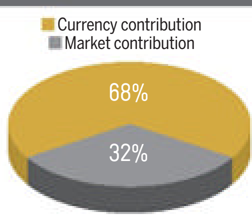
CAN THIS FUND CONVINCE YOU THAT LESS IS MORE? *by Ryan Derousseau*

This low-cost index fund is a bit of an enigma. For years, frustrated bond investors have been looking to bolster their portfolios in a low-interest-rate world. Total International has helped you do just that, returning 8.4% in the past year, trouncing its peers. Much of those gains, though, have come from capital appreciation and the fact that Total International hedges its currency exposure. So you've made money on the strengthening dollar. The fund's actual yield is pretty poor. If you can live with that, this fund offers other key benefits, including a smoother ride.

Lower Volatility

The goal of hedging currencies is to reduce risk, not boost returns.

FOREIGN BOND VOLATILITY



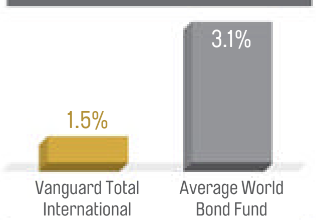
When foreign currencies lose value, as they have since August, that can hurt the performance of global bond funds. Not so with Total International, which has beaten 94% of its peers in the past year. The fund hedges using forward contracts to sell the equivalent amount of foreign currencies that it's exposed to.

The real benefit of hedging, though, is that it "drastically reduces volatility," says Morningstar analyst Thomas Boccellari. Foreign bond funds that don't hedge—the vast majority—can look more "like the stock market," says Total International co-manager Joshua Barrickman. Sure enough, this fund has been about half as rocky as unhedged global bonds over the past year, based on a widely used measure of volatility.

Lower Yield

This fund must hold low-paying European and Japanese bonds.

YIELD



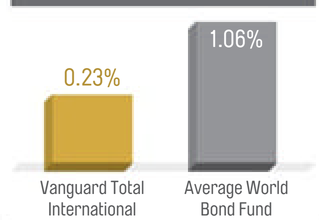
As an index fund, Total International's portfolio must reflect the global bond market. So the greater a country's debt, the more this fund must invest in that market, giving it big stakes in Japan (23%), France (11%), and Germany (10%). Trouble is, those countries' bonds are some of the lowest-yielding in the world. And Japan and Europe have just expanded their bond-buying programs, which could deflate local rates even more.

This is a double-edged sword. In the short run, falling rates will lift the market value of older, higher-yielding bonds held by Total International, boosting total returns. But it also means the universe of bonds that the fund can invest in will pay even less income going forward—which could be troubling for retired investors.

Lower Costs

At a time when yields are paltry, keeping fees down is key.

ANNUAL EXPENSE RATIO



Though Total International yields nearly one percentage point less than U.S. bonds, exposure to the global fixed-income markets serves another purpose, says Lipper analyst Jeff Tjornehoj. It offers diversification in the event there's a bear market in the U.S. for stocks or bonds.

Just make sure you're not paying too much for that benefit. High costs will "eat a decent portion of your expected return," says Barrickman, especially at a time when global yields are so low. Total International is cheaper than 98% of world bond funds, according to Morningstar. That, plus lower volatility stemming from currency hedging, are among the reasons the fund is on the MONEY 50, our recommended list of mutual and exchange-traded funds. ■

NOTE: Volatility is measured using standard deviation from 1985 to 2014. SOURCES: Vanguard, Morningstar

Money

SPRING RETIREMENT GUIDE

5 Secrets to a Richer Retirement

BY DONNA ROSATO AND PENELOPE WANG

PHOTOGRAPHS BY JESSE BURKE

THE NUMBER OF SAVERS WITH SEVEN-FIGURE WORKPLACE RETIREMENT PLANS HAS DOUBLED OVER THE PAST TWO YEARS. TO CREATE LASTING WEALTH FOR YOU AND YOUR FAMILY, LEARN FROM WHAT THESE 401(k) MILLIONAIRES—AND OTHERS WHO ARE WELL ON THEIR WAY TO JOINING THEIR RANKS—ARE DOING RIGHT.

INSIDE

BY STARTING TO SAVE FOR RETIREMENT AT AGE 26, TAJUANA HILL HAS PUT HERSELF ON TRACK TO GROW A SEVEN-FIGURE 401(k).

THE 401(k) WAS BORN in 1981 as an obscure IRS regulation that let workers set aside pretax money to supplement their pensions. More than three decades later, this workplace plan has become America's No. 1 way to save. According to a 2013 Gallup survey, 65% of those earning $75,000 or more expect their 401(k)s, IRAs, and other savings to be a major source of income in retirement. Only 34% say the same for a pension.

Thirty-plus years is also roughly how long you'll prep for retirement (assuming you don't get serious until you've been on the job a few years). So we're finally seeing how the first generation of savers with access to a 401(k) throughout their careers is making out. For an elite few, the answer is "very well." The stock market's recent winning streak has not only pushed the average 401(k) plan balance to a record high, but also boosted the ranks of a new breed of retirement investor: the 401(k) millionaire.

Seven-figure 401(k)s are still rare—less than 1% of today's 52 million 401(k) savers have one, reports the Employee Benefit Research Institute (EBRI)—but growing fast. At Fidelity Investments, one of the largest 401(k) plan providers, the number of million-dollar-plus 401(k)s has more than doubled since 2012, topping 72,000 at the end of 2014. Schwab reports a similar trend. And those tallies don't count the two-career couples whose combined 401(k)s are worth $1 million.

Workers with high salaries have a leg up, for sure. But not all members of the seven-figure club are in because they make big bucks. At Fidelity thousands earning less than $150,000 a year have passed the million-dollar mark. "You don't have to make a million to save a million in your 401(k)," says Meghan Murphy, a director at Fidelity.

You do have to do all the little things right, from setting and sticking to a high savings rate to picking a suitable stock and bond allocation as you go along. To join this exclusive club, you need to study the masters: folks who have made it, as well as savers who are poised to do the same. What you'll learn are these five secrets for building and managing a $1 million 401(k).

1 / PLAY THE LONG GAME

Fidelity's crop of 401(k) millionaires have contributed an above-average 14% of their pay to a 401(k) over their careers, and they've

Power-Saving Late

JONATHAN AND MARGARET KALLAY, 56 AND 53
Westerville, Ohio

YEARS UNTIL REACH $1 MILLION: 4

BEST MOVE: By saving more as big expenses fell away and their incomes rose, the Kallays have been able to amass 401(k)s worth a combined $750,000.

WARDROBE STYLING BY SUSAN GULCHER; GROOMING BY KELLY LANE

LOOK BEYOND YOUR 401(k)

Based on average 401(k) balances by age, workers over 40 need to set aside even more than their company plans allow.

ANNUAL SAVINGS TO HIT $1 MLLION BY 65

NOTES: Average for long-tenured workers earning $80,000 to $100,000 a year: 30s is $97,878; 40s is $183,754; 50s is $244,964; assumes 5.5% annual return. SOURCES: NextCapital, Employee Benefit Research Institute

been at it for a long time. Most are over 50, with the average age 60.

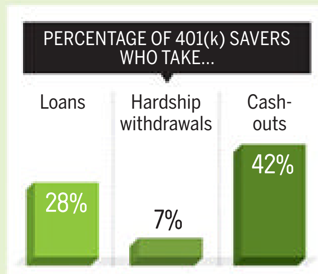
Those habits are crucial with a 401(k), and here's why: Compounding—earning money on your reinvested earnings as well as on your original savings—is the "secret sauce" to make it to a million. "Compounding gives you a big boost toward the end that can carry you to the finish line," says Catherine

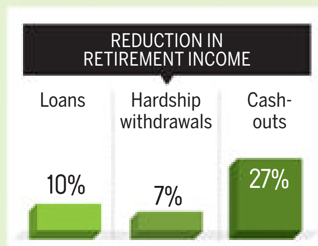
Golladay, head of Schwab's 401(k) participant services. And with a 401(k), you pay no taxes on your investment income until you make withdrawals, putting even more money to work.

You can save $18,000 in a 401(k) in 2015; $24,000 if you're 50 or older. While generous, those caps make playing catch-up tough to do in a plan alone. You need years of steady saving to build up the kind of balance that will get a big boost from compounding in the home stretch.

PLUG ANY LEAKS

Taking money from your 401(k) early can do serious damage to your retirement.





NOTES: *Hardship withdrawals are penalty-free in certain cases, including disability or job loss at 55 or older; assumes contributions are halted during loan payback. Cash-out based on two job changes in career; incomes of $100,000-plus.* **SOURCES:** *Aon Hewitt, Employee Benefit Research Institute*

HOW TO DO IT

Make time your ally. Someone who earns $50,000 a year at age 30, gets 2% raises, and puts away 14% of pay on average will have $547,000 by age 55—a hefty sum that with continued contributions will double to $1.1 million by 65, assuming 6% annualized returns. Do the same starting at age 35, and you'll reach $812,000 at 65.

Yet saving aggressively from the get-go is a tall order. It's taken Tajuana Hill, a 46-year-old employee trainer with Rolls-Royce in Indianapolis, two decades to max out. When she joined the firm at age 26, she put 10% of her pay into her plan right away. As her income rose, she ramped that up to 12%, then 17%, and finally 20% in January.

Her reward: $224,000 in her 401(k)—all the more impressive since her employer offers no match. "When I retire, I hope to do it as a millionaire," says Hill. If she sticks to this regimen, her 401(k) could top $1 million just as she reaches 65.

What has helped Hill is a side business she launched three years ago, Mimosa and a Masterpiece, an art studio where students can sip a drink during class. The income let her pay off her credit cards, freeing up funds to save. This strategy of picking up part-time or freelance work and earmarking the money for retirement can make all the difference on the road to seven figures.

Milk your employer. For Fidelity 401(k) millionaires, employer matches accounted for a third of total plan contributions. You should squirrel away as much of the boss's cash as you can.

According to HR association WorldatWork, at a third of companies 50% of workers don't contribute enough to the company 401(k) plans to get the full match. That's a missed opportunity to collect free money. A full 80% of 401(k) plans offer a match, most commonly 50¢ for each $1 you contribute, up to 6% of your salary, but dollar-for-dollar matches are a close second.

Broaden your horizons. As the graphic on page 53 shows, power-saving in your forties or fifties may bump you up against your 401(k)'s annual limits. "If you get a late start, in order to hit the $1 million mark, you will need to contribute extra savings into a brokerage account," says Dirk Quayle, president of NextCapital, which provides portfolio-management software to 401(k) plans.

Ramping up your savings later in life pays off. Jonathan and Margaret Kallay of Westerville, Ohio, contributed only small amounts to their retirement plans early on. "It wasn't much, about $50 a paycheck on a $13,000-a-year salary," says Jonathan, a firefighter who is now 56. Margaret, then an ER nurse, put away 5% of her pay.

As big expenses fell away, the Kallays saved more. Married in 1993, the couple each paid child support for daughters from previous marriages until the girls reached 18. Once that ended, the money went toward retirement.

Earning more has helped too. Jonathan worked extra shifts as a paramedic. Margaret, 53, got a business degree and is now a vice president at an insurance company. They each put about 15% in their 401(k)s, which total $750,000 and could hit $1 million in four years.

2 ACT LIKE A COMPANY LIFER

The Fidelity 401(k) millionaires have spent an average of 34 years with the same employer. That kind

of staying power is nearly unheard-of these days. The average job tenure with the same employer is five years, according to the Bureau of Labor Statistics. Only half of workers over age 55 have logged 10 or more years with the same company. But even if you can't spend your career at one place—and job switching is often the best way to boost your pay—you can mimic the ways steady employment builds up your retirement plan.

HOW TO DO IT

Consider your 401(k) untouchable. A fifth of 401(k) savers borrowed against their plan in 2013, according to EBRI. It's tempting to tap your 401(k) for a big-ticket expense, such as buying a home. Trouble is, you may shortchange your future. According to a Fidelity survey, five years after taking a loan, 40% of 401(k) borrowers were saving less; 15% had stopped altogether. "There are no do-overs in retirement," says Donna Nadler, a certified financial planner at Capital Management Group in New York.

Even worse is cashing out your 401(k) when you leave your job; that triggers income taxes as well as a 10% penalty if you're under age 59½. A survey by benefits consultant Aon Hewitt found that 42% of workers who left their jobs in 2011 took their 401(k) in cash. Young workers were even more likely to do so. As you can see in the graphic on page 54, siphoning off a chunk of your savings shaves off years of growth. "If you pocket the money, it means starting your retirement saving all over again," says Nadler.

Resist the urge to borrow and roll your old plan into your new 401(k) or an IRA when you switch jobs. Or let inertia work in your favor. As long as your 401(k) is worth $5,000 or more, you can leave it behind at your old plan.

TAME YOUR MIX

Starting retirement with a conservative portfolio can protect you from sharp drops.

Though in exchange you'll probably give up a little growth.

NOTE: Bear market from November 2007 to February 2009. SOURCES: Rick Ferri, Portfolio Solutions

Fill in the gaps. Another problem with switching jobs is that you may have to wait to get into the 401(k). Waiting periods have shrunk: Today two-thirds of plans allow you to enroll in a 401(k) on day one, up from 57% five years ago, according to the Plan Sponsor Council of America. Still, the rest make you cool your heels for three months to a year. Meanwhile, 40% of plans require you to be on the job six months or more before you get matching contributions.

When you face a gap, keep saving, either in a taxable account or in a traditional or Roth IRA (if you qualify). Also, keep in mind that more than 60% of plans don't allow you to keep the company match until you've been on the job for a specific number of years, typically three to five. If you're close to vesting, sticking around can add thousands to your retirement savings.

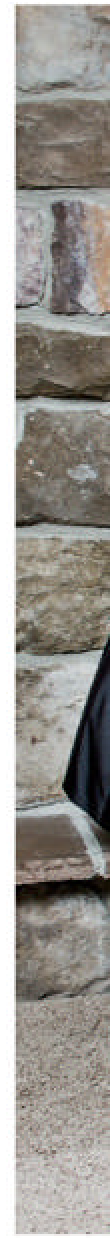
Put a price on your benefits. A generous 401(k) match and friendly vesting can be a lucrative part of your compensation. The match added about $4,600 a year to Fidelity's 401(k) millionaire accounts. All else being equal, seek out a generous retirement plan when you're looking for a new job. In the absence of one, negotiate higher pay to make up for the missing match. If you face a long waiting period, ask for a signing bonus.

3 KEEP FAITH IN STOCKS (UP TO A POINT)

Research into millionaires by the Spectrem Group finds a greater willingness to take reasonable risks in stocks. True to form, Fidelity's supersavers have 75% of their assets in stocks on average, vs. 66% for the typical 401(k) saver. That hefty equity stake has helped 401(k) millionaires hit seven figures, especially during the bull market that began in 2009. What's right for you will depend in part on your risk tolerance and what else you own. Use these guidelines to come up with your plan.

HOW TO DO IT

Stay committed early. You may not get the recent bull market turbo-boost that today's 401(k) millionaires enjoyed. With rising interest rates expected to weigh on



Living Within Their Means

STEVE AND MELANIE THORNE, BOTH 37, WITH CHASE, 5 York, Pa.

YEARS TO $1 MILLION: 15

BEST MOVE: The couple have been disciplined about hiking their retirement contributions with every raise. Melanie saves 10% of her pay in her plan, while Steve sets aside 12%. They even save extra in Roth IRAs.

WARDROBE STYLING AND GROOMING BY LISA BELL

financial markets, analysts are projecting single-digit stock gains over the next decade. Still, those returns should beat what you'll get from bonds and cash.

Steve and Melanie Thorne, both 37, together have $310,000 in their work retirement plans, Roth IRAs, and a brokerage account, all invested 100% in stocks. "We are young, so we can be more aggressive," says Steve, a security officer at a nuclear power plant.

Investing is a passion for Steve, who first started saving for retirement with a Roth IRA when he was 18. He says he follows Warren Buffett's philosophy about buying stocks: Be greedy when others are fearful, be fearful when others are

Freeing Up Cash to Save

TAJUANA HILL, 46
Indianapolis

YEARS TO $1 MILLION: 17

BEST MOVE: Income from a side business has helped Hill retire debt and redirect those monthly payments toward retirement, bringing her 401(k) contribution up to 20%.

greedy. But, he says, he and Melanie, a nurse, are buy-and-hold investors and keep most of their portfolio in low-cost index funds.

Know when to dial it back. A bear market at the start of retirement could put a permanent dent in your income. Retiring with a 55% stock/45% bond portfolio in 2000, at the start of a bear market, meant reducing your withdrawals by 25% just to maintain your odds of not running out of money, according to research by T. Rowe Price.

That's why financial adviser Rick Ferri, head of Portfolio Solutions, recommends shifting to a 30% stock and 70% bond portfolio at the outset of retirement. As the graphic on page 56 shows, that mix would have fallen far less during the 2007–09 bear market, while giving up just a little potential return. "The 30/70 allocation is the center of gravity between risk and return—it avoids big losses while still providing growth," Ferri says.

Financial adviser Michael Kitces and American College professor of retirement income Wade Pfau go one step further. They suggest starting with a similar 30% stock/70% bond allocation and then gradually increasing your stock holdings. “This approach creates more sustainable income in retirement,” says Pfau.

That said, if you have a pension or other guaranteed source of income, or feel confident you can manage a market plunge, you may do fine with a larger stake in stocks.

4 KNOW WHEN TO SAY GOODBYE

You’re at the finish line with a seven-figure 401(k). Now you need to turn that lump sum into a lasting income, something that even dedicated do-it-yourselfers may want help with. When it comes to that kind of advice, your workplace plan may not be up to the task.

In fact, most retirees eventually roll over 401(k) money into an IRA—a 2013 report from the General Accountability Office found that 50% of savings from participants 60 and older remained in employer plans one year after leaving, but only 20% was there five years later.

HOW TO DO IT

Give your plan a shot. Even if your first instinct is to roll over your 401(k), you may find compelling reasons to leave your money where it is, such as low costs (no more than 0.5% of assets) and advice. “It can often make sense to stay with your 401(k) if it has good, low-fee options,” says Jim Ludwick, a financial adviser in Odenton, Md.

More than a third of 401(k)s have automatic withdrawal options, according to Aon Hewitt. The plan might transfer an amount you specify to your bank every month. A smaller percentage offer financial advice or other retirement income services. (For a managed account, you might pay 0.4% to 1% of your balance.) Especially if your finances aren’t complex, there’s no reason to rush for the exit.

Leave for something better. With an IRA, you have a wider array of investment choices, more options for getting advice, and perhaps lower fees. Plus, consolidating accounts in one place will make it easier to monitor your money.

But be cautious with your rollover, since many in the financial services industry are peddling costly investments, such as variable annuities or other insurance products, to new retirees. “Everyone and their uncle will want your IRA rollover,” says Brooklyn financial adviser Tom Fredrickson. You will most likely do best with a diversified portfolio at a low-fee brokerage or fund group. What’s more, new online services are making advice more affordable than ever (see “Meet Your New Financial Adviser” on page 70).

GO EASY ON WITHDRAWALS

To be confident that a $1 million nest egg will support you over the long run, you have to set a low 3% or 4% withdrawal rate.

NOTES: *Income rises by inflation rate annually; assumes 40% stocks/60% bonds.*
SOURCE: *David Blanchett, Morningstar*

5 GET SMART ABOUT TAXES

Most of your 401(k) money was probably saved pretax, and once you start making withdrawals, Uncle Sam will want his share. The conventional wisdom would have you postpone taking out 401(k) funds for as long as possible, giving your money more time to grow tax-deferred. But retirees must start making required minimum withdrawals (RMDs) by age 70½. With a million-dollar-plus account, that income could push you into a higher tax bracket. Here are three possible ways to reduce that tax bite.

Make the most of income dips. Perhaps in the year after you retire, with no paycheck coming in, you drop to the 15% bracket (income up to $73,800 for a married couple filing jointly). Or you have medical expenses or charitable deductions that reduce your taxable income briefly before you bump back up to a higher bracket. Tapping pretax accounts in low-tax years may enable you to pay less in taxes on future withdrawals, says Marc Freedman, a financial adviser in Newton, Mass.

WARDBROBE STYLING BY KELLY KRUTHAUPT: HAIR AND MAKEUP BY KIRALEE HUBBARD;
WARDROBE BY GTHRAPP, BURBERRY, THEORY, NORDSTROM, HAUS LOVE

Spread out the tax bill. Taking advantage of low-tax-bracket years to convert IRA money to a Roth can cut your tax bill over time. Just make sure you have cash on hand to pay the conversion taxes.

Say you and your spouse are both 62, with Social Security and pension income that covers your living expenses, as well as $800,000 in a rollover IRA. If you leave the money there, it will grow to nearly $1.1 million by the time you start taking RMDs, assuming 5% annual returns, says Andrew Sloan, a financial adviser in Louisville.

If you convert $50,000 a year to a Roth for eight years instead, paying $7,500 in income taxes each time, you can stay in the 15% bracket. But you will end up paying less in taxes when RMDs begin, since your IRA balance will be only $675,000. Meanwhile, you will have $475,000 in the Roth. Another benefit: Since Roth IRAs aren't subject to RMDs, you can pass on more of your IRAs to your heirs.

Plot your exit from employer stock. Some 401(k) investors, often those with large balances, hold company stock. Across all plans, 9% of 401(k) assets were in employer shares at the end of 2013, Vanguard data show—for 9% of participants, that stock accounts for more than 20% of their plan.

Unloading those shares at retirement will reduce the risk in your portfolio. Plus, that sale may cut your tax bill. That's because of a tax rule called net unrealized appreciation (NUA), which is the difference between the price you paid for the stock and its market value.

Say you bought 5,000 shares of company stock in your 401(k) at $20 a share, for a total price of $100,000.

Is a $1 Million Nest Egg *Enough?*

IT SOUNDS LIKE a lot of money—and it is. If you have stashed $1 million in your 401(k), you have amassed five times more than the average 60-year-old who has saved for 20 years.

But being a millionaire is no guarantee that you can live large in retirement. "These days the notion of a millionaire is actually kind of quaint," says Brooklyn adviser Tom Fredrickson.

WHY $1 MILLION ISN'T WHAT IT ONCE WAS: Using a standard 4% withdrawal rate, your $1 million portfolio will give you an income of just $40,000 in your first year of retirement. (In following years you can adjust that for inflation.) Assuming you also receive $27,000 annually from Social Security (a typical amount for an upper-middle-class couple), you'll end up with a total retirement income of $67,000.

In many areas of the country, you can live quite comfortably on that. But it may be a lot less than your preretirement salary. And as the graphic on page 54 shows, taking out more severely cuts your chances of seeing that $1 million last.

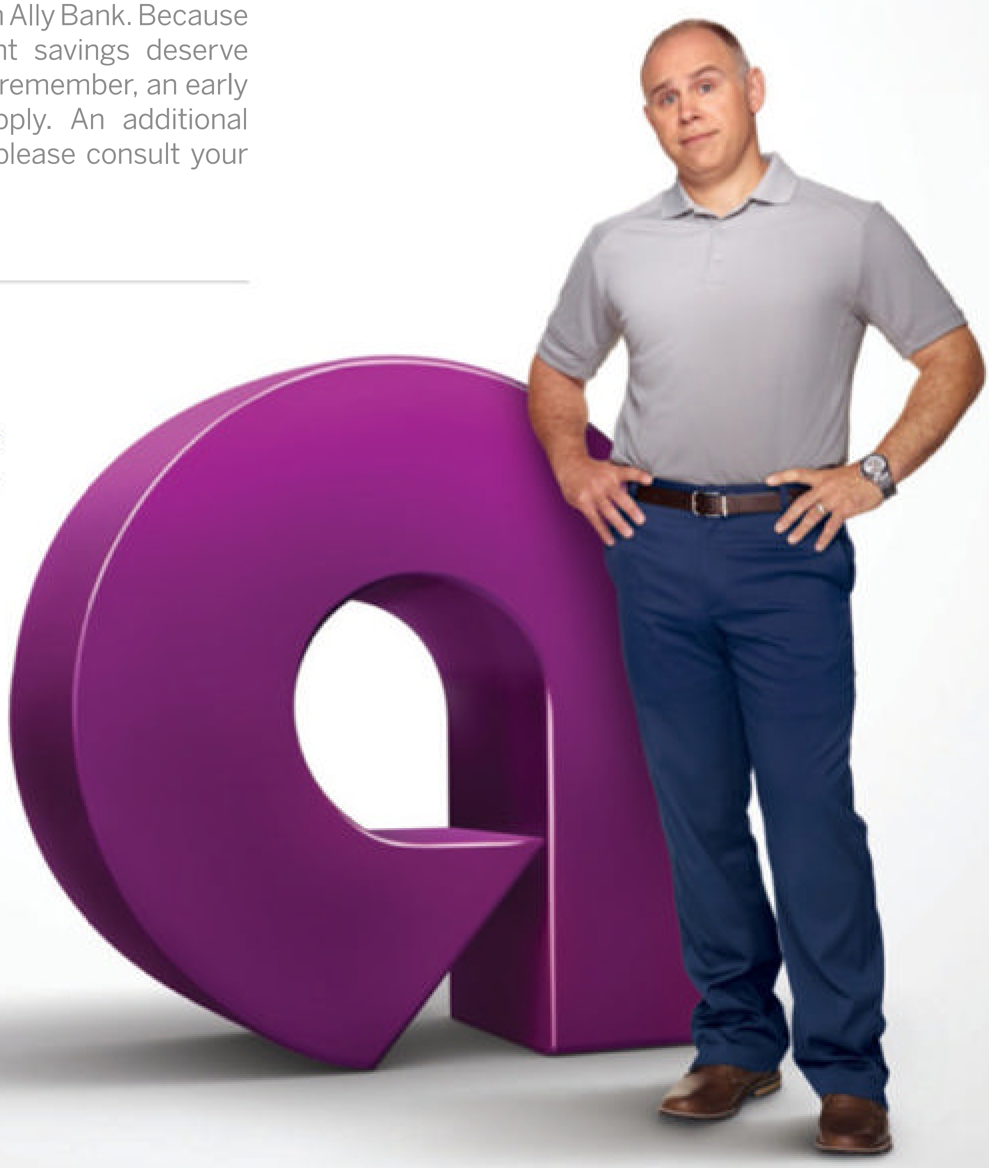
WHAT YOUR REAL GOAL SHOULD BE: To avoid a sharp decline in your standard of living, focus on hitting the right multiple of your preretirement income. A useful rule of thumb is to put away 12 times your salary by the time you stop working. Check your progress with an online tool, such as the retirement income calculator at T. Rowe Price.

WHY HIGH EARNERS NEED TO AIM HIGHER: Anyone earning more will need to save even more, since Social Security will make up less of your income, says Wharton finance professor Richard Marston. A couple earning $200,000 should put away 15.5 times salary. At that level, $3 million is the new $1 million.

Five years later the shares are worth $50, or $250,000 in total. That gives you a cost of $100,000, and an NUA of $150,000. At retirement, you could simply roll that stock into an IRA. But to save on taxes, your best move may be to stash it in a taxable account while investing the balance of your plan in an IRA, says Jeffrey Levine, a CPA at IRAhelp.com.

All rollover IRA withdrawals will be taxed at your income tax rate, which can be as high as 39.6%. When you take company stock out of your 401(k), though, you owe income tax only on the original purchase price. Then, when you sell, you'll owe long-term capital gains taxes of no more than 20% on the NUA.

Of course, these complex strategies may call for an accountant or financial adviser. But after decades of careful saving, you don't want to jeopardize your million-dollar 401(k) with a bad tax move. ■



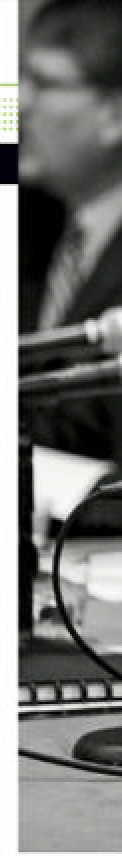
The Smart Way to Invest for Income

IT'S BEEN SIX YEARS SINCE THE FED SLASHED SHORT-TERM INTEREST RATES TO NEAR ZERO, PUNISHING RETIREES WHO LIVE OFF OF THEIR INVESTMENT INCOME. IN FEBRUARY, *MONEY* GATHERED A PANEL OF EXPERTS AT THE WORLD MONEYSHOW IN ORLANDO TO DISCUSS SAFE WAYS TO BOOST INCOME. HERE ARE THE HIGHLIGHTS.

THE PANEL

- **CHRISTINE BENZ** Director of personal finance, Morningstar
- **PAUL J. LIM** Assistant managing editor, MONEY
- **STEVE POMERANZ** Financial planner and host of *On the Money Radio*
- **HOWARD GOLD** Founder, GoldenEgg Investing, and columnist for MarketWatch
- **CRAIG MATTERS** Former managing editor, MONEY
- **DOUG RAMSEY** Chief investment officer, the Leuthold Group

Photographs by BENJAMIN NORMAN



JUST WHEN YOU THINK interest rates can't go any lower, they do. The yield on 10-year Treasuries has sunk from 3% at the start of last year to 2%, barely above its record lows. Those who mistimed the move missed out—long-term government bonds have gained nearly 20% over the past year as falling rates boosted bond prices. Meanwhile, retirement investors remain mired in a rate drought that seems to have no end in sight, especially now that policymakers overseas are following the Federal Reserve's lead by buying bonds in the open market. What's an income investor to do? That's what a roundtable convened by MONEY at the World MoneyShow in February sought to address.

Craig Matters: We're here to try to give you a smart way, in a tough environment, to think about how to optimize your portfolio when you're living off the income it produces. I'd like to start by having the panelists talk about their work and a little bit of philosophy.

Doug Ramsey: This frames the problem right now: The conventional 60% stock/40% bond portfolio, since 1878, has thrown off an income stream of 4.1%. In other words, that would be 60% of the dividend yield on the S&P 500 and 40% of the 10-year Treasury yield.

Do you know what the income stream off that portfolio is today? It just dropped below 2%. What's tragic is that if you took 60% of the S&P 500 and 40% of junk bonds yielding 6.5%, you still wouldn't quite get there. It's very striking.

Also, the annualized total return on that very simplistic 60/40 portfolio is 8%. So you've gotten a little bit more than half of your return from income without even trying. Are we really going to be able to generate 8% total returns on that portfolio when capital gains now have to deliver three-quarters of that rather than just under half?

Steve Pomeranz: This is a complicated world, and it really has been a world of scarcity with regard to high dividends or interest rate returns for quite a while. So for us the focus has been on total return.

Bonds are important in a retiree's portfolio because there are times when volatility is high and we have these terrible years for stocks. I don't know if 2008 is going to repeat itself for quite a long time. But if prices of equities drop, you need to get your return from different baskets—such as a cash basket and a bond basket.

Christine Benz: My tenure focusing on retirement planning at Morningstar roughly coincides with the mid-2000s, when we really began to see yields drop through the floor. At that point, I was hearing from a lot of retirees who said, "You know, I need 5% from my portfolio, I need 6% from my portfolio."

What do you do when the yields on safer securities are below that level? For the past several years, I've been toiling over this series of what I call bucket portfolios, similar to the baskets that Steve mentioned.

The basic idea is that they are total-return-oriented portfolios, broadly diversified and consisting of stocks, high-quality bond funds, and maybe a little bit lower-quality

This interview has been edited.

OPPOSITE PAGE: CRAIG MATTERS; FROM LEFT: DOUG RAMSEY, HOWARD GOLD, CHRISTINE BENZ, STEVE POMERANZ, AND PAUL LIM

"Everybody is chasing yield both on the stock and bond sides."

—HOWARD GOLD

bond funds as well. If the yield is not there, where do you go to help get yourself to 4% if that's what you need? Should you sell some of your highly appreciated stocks?

Paul Lim: Journalists are trained to think about worst-case scenarios. So you'll hear a lot of discussion from me with regard to moderating the risks that are out there. A lot of the asset classes that are being used by retirement investors to seek higher income are much more highly correlated with equities than a traditional bond strategy would be.

I think back to 2008 when the S&P 500 lost 37% of its value. A general high-quality corporate/government bond portfolio would have returned a positive 5% in that year, so it did its job even though it was low yielding. Whereas a lot of the things that we may be talking about here—whether it's master limited partnerships or junk bonds or dividend-paying stocks or preferred stock—ended up losing tremendous amounts of value in 2008.

Howard Gold: I sat in on a workshop yesterday that discussed how our own brains are often our worst enemies; that human nature is probably not built to allow us to be a rational or even a calculating investor. And I think you have to counteract that by making sure you don't get too carried away by any particular thing—like chasing a 10% yield in an MLP or something like that because the risk rises dramatically.

I'm a believer in "the perfect is the enemy of the good." We're in the kind of environment now where the choices are very, very difficult; everybody is chasing yield on both the stock and bond sides.

CM: I want to talk a little bit about bonds because I feel like not enough people here own them, and I know why you don't own them. The yields stink right now.

CB: I think investors have gotten themselves into some trouble with overthinking what is going to happen with interest rates at large. We saw a lot of investors really fleeing bond funds and retreating to cash because they were fearful of rising rates, and they did suffer an opportunity cost because bonds have been decent performers.

So if you have money that you know you're going to need to spend within the next couple of years, it ought to be in cash. If you have money where you have a slightly longer time horizon, maybe three to five years, I think a good core bond fund—whether it's **Dodge & Cox Income** or **Pimco Total Return**—with a duration [a measure of interest rate risk] of maybe five years makes a lot of sense.

HG: It's much harder to be a bond investor now than to be a stock investor. It wasn't so long ago that people were getting 4% to 5% on CDs, and for retirees that was fine because there was no risk. Now we have a situation where people are really, really stretching for yield, and I think they're taking on a lot of different kinds of risks.

CM: So, Howard, what can you do with your bond portfolio without going too far out on the risk curve and do a little better?

HG: I think you should be in high yield. I think one possible way to limit your risk, and I'm going to give a recommendation here, is a short-term high-yield corporate bond fund called the **Pimco 0–5 Year High Yield Corporate Bond ETF**. The short maturity at least reduces the interest rate risk.

CM: One of the things that's happened in recent years, as people have been looking to beat low rates, has been the rise in something called unconstrained bond funds.

Investors have been pouring tens of billions into these in recent years, and the Wall Street machine is just churning these things out. I'm curious what the panel thinks.

CB: Yeah, we've got a category for these funds—nontraditional bonds—and they generally have very wide-open mandates. They can invest in foreign bonds, emerging-market bonds, etc. To date, the performance of this group has not been particularly compelling.

When you look at **Pimco Unconstrained Bond** relative to **Pimco Total Return** over the past five years, the Total Return Fund has actually had twice the return of the unconstrained fund. I don't know that there's any sort of secret sauce associated with these funds. I don't know if there's anything in that nontraditional unconstrained bond universe that's a must-own.

PL: Our approach has generally been, if you are going to embrace some kind of go-anywhere fund, instead of going with an unconstrained bond fund, go with a somewhat-constrained bond fund.

Before the nontraditional bond-fund category came out, we all talked about multisector funds—funds like Dan Fuss's **Loomis Sayles Bond** that could go to various asset classes but with certain caps. Loomis Sayles Bond can own common stocks, but it's capped at 10%. It can own junk bonds, but it's capped at 35%. Another fund is **T. Rowe Price Spectrum Income,** which can own emerging-market bonds but is capped at 10%. It can own floating-rate bank loan funds, but it's capped at 10%.

That does give the manager flexibility to go to other places if that's where he sees fit. But it hems him in somewhat so that in the worst possible scenario you're not going to be all in cash or all in bonds at the worst possible moment.

And by the way, the Loomis Sayles Bond Fund yields 4%. T. Rowe Price Spectrum Income yields 3.3%. So it's not like they are laggards in terms of producing yield.

Audience member: What about municipals?

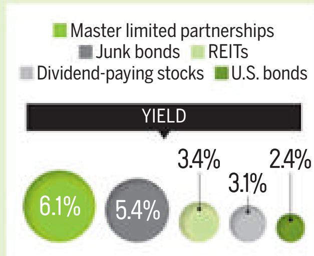
HG: I think municipal bonds are great, particularly for your taxable accounts, of course. Municipalities have done much better than people expected. In California—remember California?—they're projecting a $20 billion surplus. I mean, have you ever heard the word "California" and "surplus" together in one sentence? It's really astonishing.

The larger point is that the doom and gloom we've heard about municipal governments never transpired. The default rate on municipal bonds is 0.17%. How many people here live in Florida, without a state income tax? A good national muni bond fund—that would be a really good choice. For those of you in high-tax states like me, from New York, New Jersey, Connecticut, California, I think you could go for a single-state bond fund.

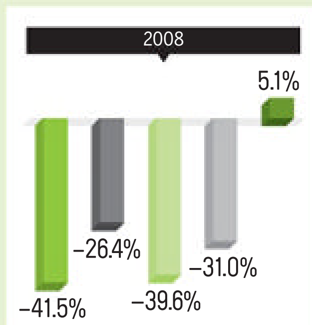
CB: One point I would make—one potential caveat—is that much of the issuance in the muni market

TRADEOFFS

While alternative investments yield more than traditional bonds ...



... they move in sync with equities, as evidenced in the recent bear market.



SOURCES: *Morningstar, Ycharts*

is long term. And when we look at most of the funds, they are long-term-oriented. So do be mindful of the duration-related risk there as well, because you will feel it if interest rates go up.

HG: But they do have short-term muni bond funds as well.

CM: Christine, you're a big proponent of people having cash. How do you get the most out of that?

CB: I think the amount of cash that you'd want to have does depend on where you are in your life stage. For retirees, I typically recommend a baseline of one year's worth of living expenses in true cash instruments.

Short-term bonds may be vulnerable to a [Fed interest rate hike] in interest rates. So if you have money that you know you'll need to spend in the near term, my advice is to just kind of hold your nose and try to find the best-yielding option you can.

Right now, when you look around and survey the options, it's certainly not money-market mutual funds but online savings banks that tend to have more competitive yields, generally in the realm of 0.9% per year—some as high as 1% per year. So I think that's the best deal going for investors who can get comfortable with the idea of being with an online savings bank.

SP: I would say take a look at **Guggenheim BulletShares**. Those are ETFs that have specific maturity dates, 2015, 2016, and so on. So in a sense, you can ladder a portfolio with these funds knowing that you have bonds that actually mature in the very short term. You're going to get a bump over money-market rates, and there's going to be a tiny bit of market risk, but I think that it would be worth looking into.

"I don't know if there's anything in the nontraditional bond universe that's a must-own."

—CHRISTINE BENZ

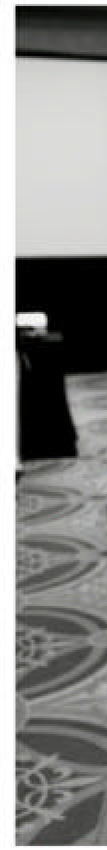
CM: What are the risks with investing in senior secured floating-rate bond funds?

CB: Well, I would put them in the category of things that are very sensitive to the economy and very sensitive to the equity market. Bank loan funds as a category, sometimes called floating-rate funds, lost more than 20% in 2008, so I would definitely put that in sort of the high-risk portion of my portfolio. Mentally categorize it as a high-yield-bond type.

PL: They are low quality.

SP: Well, you get first dibs on all corporate assets in bankruptcies, so there's a sales pitch there. Many of those funds, however, are closed-end funds, which use leverage [borrowed money to amplify results]. So if you're looking at that area, make sure you understand that, and that obviously enhances the rate of return in both directions. However, there are some mutual funds that don't use leverage.

CB: Fidelity has what we think is the best floating-rate fund, **Fidelity Floating Rate High Income**. I would also say that there are some attractions to these products in that they will tend to behave pretty well in rising-rate environments. That is why people got so excited about them a couple of years ago, only to have their hopes dashed when rates didn't, in fact, rise. But there is some attraction there if



rising rates are a concern for you.

CM: A question from the audience: "What's up with gold?"

HG: Is that a question for Mr. Gold? We'll, I've written about this a lot, and I happen to think gold is in a secular bear market. It usually goes in 16- to 17-year cycles.

DR: I would tend to agree with Howard. You couldn't dream of a better fundamental backdrop than what you have right now for gold. Remember, gold peaked in August 2011. From the fall of 2012 through last October, gold went down by a third. You're seeing negative real interest rates, and governments around the world are printing money, yet gold is not responding.

HG: I just wanted to add something very quickly, changing the subject to a more meat-and-potatoes source of income ...

For dividend investors, there is an ETF called **PowerShares International Dividend Achievers.** Now, this is very much like the **Vanguard Dividend Appreciation Fund.** It follows companies that have raised their annual dividend for five or more consecutive years, but they're large international companies.

I think it plays into some of the things the panelists were talking about, about maybe diversifying a bit. A lot of these companies are European; some are Asian. The fund has a dividend yield of 2.85%, which doesn't sound wonderful, but it is about one percentage point higher than the Vanguard Dividend Appreciation ETF, which I also like.

CM: It's a reasonably conservative way to play euros as well.

PL: And because of the fund's European exposure, the median P/E of its holdings is about 14.5, vs. something on the order of nearly 19 for the **SPDR S&P Dividend ETF**, which invests in dividend growers here in the U.S.

CM: Europe also throws off more income, and the valuations are lower. Is that a place where people should look?

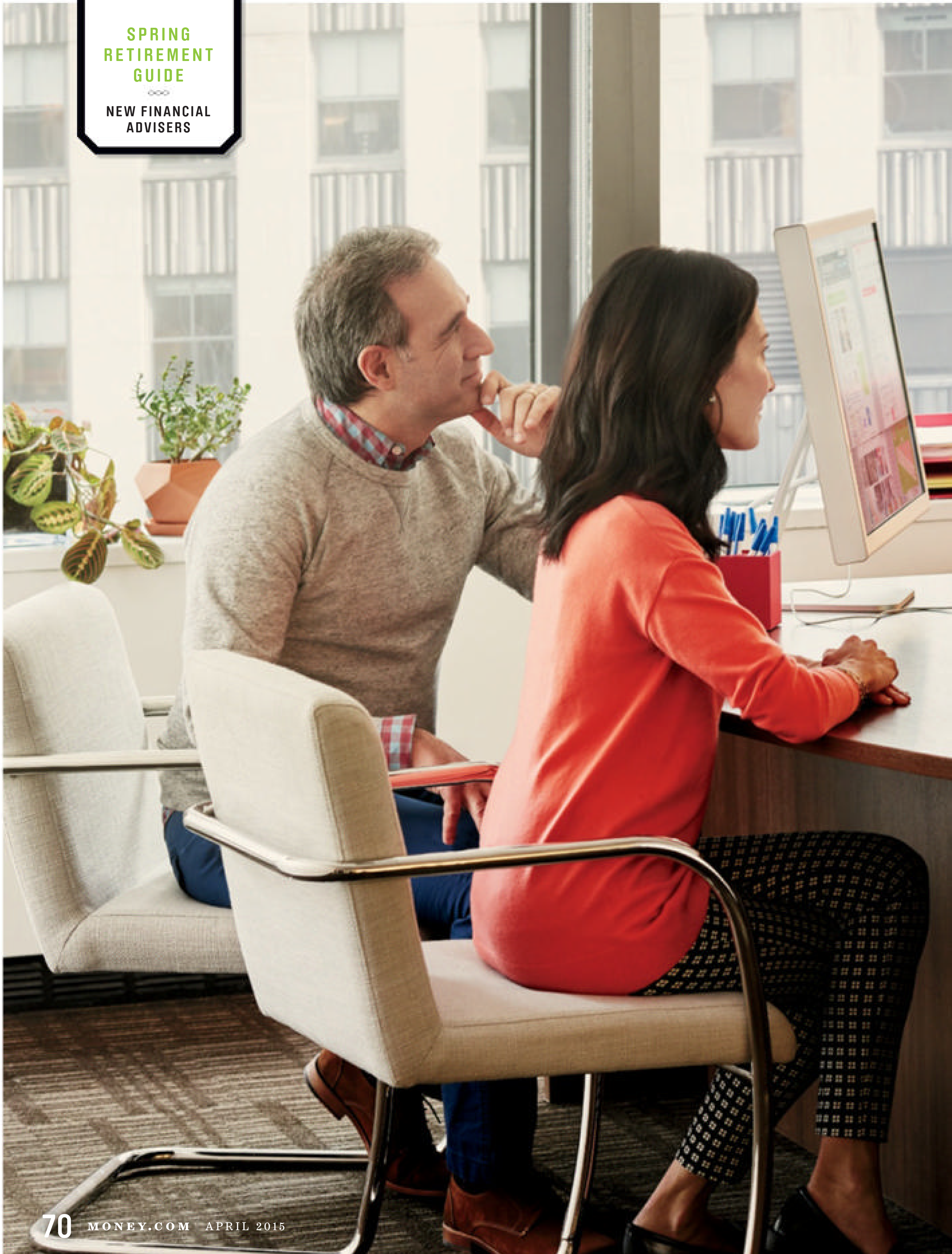
DR: We've made the case for European valuations for a couple of years now. What we tend to believe is that when a great valuation opportunity arises, it typically won't surface until there's a major market event—a bear market is usually when you would get a major leadership shift.

SP: The way we think about it is, we have a core portfolio that is mostly allocated to the U.S., and depending upon the portfolio, anywhere from 20% to 30% overseas. We try to invest intelligently, knowing that some years Europe is going to be bad, but some years Europe is going to be the best performer.

CB: Looking at some of the unloved foreign stocks is an idea. It's so important to think about what actually predicts market performance, and the thing that predicts market performance is valuation.

CM: I want to thank you all. You were a great crowd.

MONEY will be holding a panel on dividend growth investing at the MoneyShow in Las Vegas (May 12–14). Visit moneyshow.com.



Meet Your New Financial Adviser

BY IAN SALISBURY
PHOTOGRAPHS BY PETER YANG

NEW WEBSITES CALLED ROBO-ADVISERS ARE PROMISING SMARTER INVESTMENT ADVICE AT A MUCH LOWER COST. BUT ARE YOU REALLY READY TO GIVE UP THE HUMAN TOUCH?

BETTERMENT looks like a startup right out of tech disrupter central casting. Its office, in an airy loft space, features a beer tap and Ping-Pong table. The founder, Jon Stein, favors open-necked shirts at work, not a suit and a tie. He is 35 years old.

But Betterment isn't in Silicon Valley, and it's not selling chat apps, cat videos, or cheap car rides. It's in Manhattan and trying to make a splash in the very serious business of investment advice. Stein has a Wall Street résumé: He's a former banking consultant and a chartered financial analyst. He also thinks that Wall Street charges way too much and that Internet-based companies can fundamentally change the way you invest for your retirement. "We've taken the friction out of the process. We've made [advice] accessible to everyone. That is the future," says Stein, with the modesty you'd expect from a tech CEO.

What Stein calls "friction" other advisers call a good business. Advice can be expensive. You may pay about 5% off the top for a commission-based adviser who puts you in mutual funds. Or you might pay an annual fee—1% of assets is typical—but many advisers and planners often won't bother with clients who don't have a lot to invest. "It's almost like there were two options: walking, or driving a Mercedes," says Michael Kitces of Pinnacle Advisory Group.

Betterment and at least a dozen competitors, including Wealthfront and FutureAdvisor, think web tools and computer models can deliver advice much more cheaply. Known (sometimes pejoratively) as robo-advisers, they pick investments for you and monitor your portfolio. Many do it for 0.15% to 0.5% of assets a year and welcome tiny balances.

"Many financial advisers are going to get drummed out of the business," says adviser Ric Edelman, a well-known industry figure. That's a bold forecast: Robos manage $19 billion, a relative sliver. Charles Schwab alone runs $2.5 trillion.

Private venture capital investors are racing in—Betterment recently got a shot of $60 million. Using Betterment's implied value as a yardstick, VCs think a robo may be worth about $30 for every $100 in client assets, vs. $3 per $100 for some traditional advisers. Robos "see themselves becoming the next Schwab," says Grant Easterbrook, author of an industry report for the research firm Corporate Insight. "Based on the money they've gotten, the VCs believe them."

A close look at what most robos do reveals a fairly cookie-cutter, if common-sense, investment approach—one many MONEY readers would feel comfortable doing themselves. And there are important things the services haven't yet figured out how to do well.

Still, this could start to finally open up advice to a bigger chunk of middle-class investors, not just the wealthy. Even if robos aren't for you now, you may soon benefit from the way they're changing the business. Other sites, such as LearnVest and Personal Capital, are using technology to connect you to a human adviser or planner you just never happen to meet in person. Established players like Vanguard and, yes, the *current* Schwab are responding with their own low-cost offerings. (Schwab's headline price: free.) The existence of the robo option puts pressure on everyone's prices.

In other words, you don't need to buy the Mercedes. "Now there are Kias. There are Fords," says Kitces. "There are a lot more choices." Here's how those choices stack up today, and what they can do for you.

SIMPLE AND CHEAP—BUT CHEAP ENOUGH?

Financial company web pages don't usually win points for style. Big firms offer dozens of products,

PROP STYLING BY LINDA KEIL; WARDROBE STYING BY ERIC LAUNDER; GROOMING BY NATALIE CARDONA

MODEL ROBOT BY SUZANNE COUTURE

"We've taken the friction out of the process. We've made it accessible to everyone."

—BETTERMENT FOUNDER JON STEIN

from stock trading to annuities, and their sites make sure you see a link to every single one.

By contrast, Betterment's is clean. You'll see a picture of a computer and a cup of coffee. You enter your age and your income. After a few questions about your goals and attitude toward risk, a pie chart appears. It recommends eight to 12 low-cost exchange-traded index funds passively tracking parts of the U.S. stock market, the bond market, and foreign stocks.

If you like what you see, you are offered help moving your money over from your existing manager or linking to your checking account for regular deposits.

Essentially, that's it.

Wealthfront, a competitor based in Silicon Valley, works roughly the same way. If talk of robo-advisers conjures something like IBM's chess-playing Deep Blue, or an artificial intelligence that can see around the stock market's corners for you, the reality is more mundane. Most robos are putting you in investments you'll hold for years, adjusting only for your age or when you change your goals. (They also do some trades to cut your tax bill,

but that won't matter much if you invest via an IRA.) Most don't pick stocks and don't try to find fund managers who will beat the market. By sticking with index funds charging an average of 0.15%, they keep underlying investment costs low.

Such simplicity isn't bad. Indeed, arguably the biggest innovation driving many of these companies isn't new technology but a previous intellectual revolution: the realization that most investors will be far better off buying and holding cheap index funds than paying someone to try to outwit the market. Over a recent five-year period, according to S&P Dow Jones Indices, 74% of domestic stock funds failed to beat a total-market index after their fees. Add in high fees or a commission for an adviser, and it's even harder to keep up.

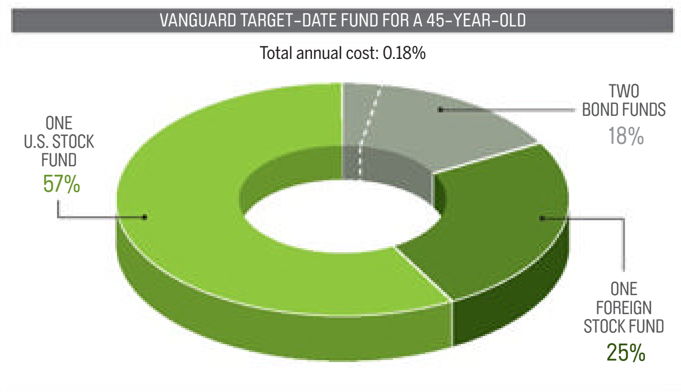
But indexing's simplicity has a downside, the robo-advisers argue. Advisers selling mutual funds (or their own market-divination skills) don't have much incentive to tell you to buy some cheap index funds and mostly leave them alone. The problem is not that savers need a fancier investing strategy. It's that too many people—especially millennials just starting to save—don't know about the simple good one that already exists.

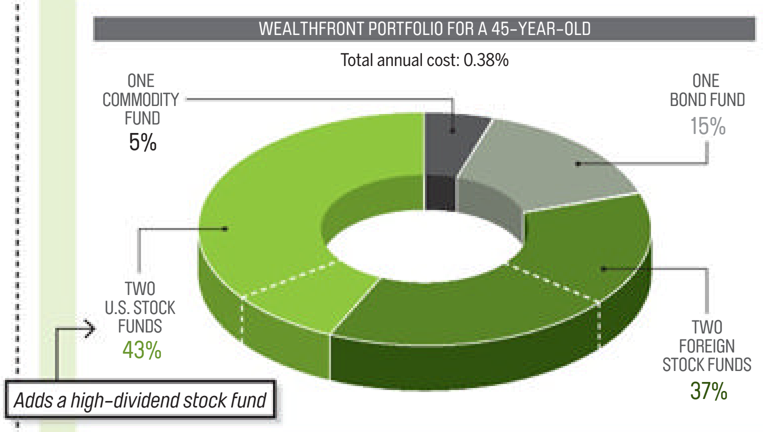
Other investors may start out right but make mistakes like panicking during a downturn and selling out. Some just don't want the hassle of setting up and adjusting their accounts over time. "We are for delegators," says Adam Nash, chief executive of Wealthfront.

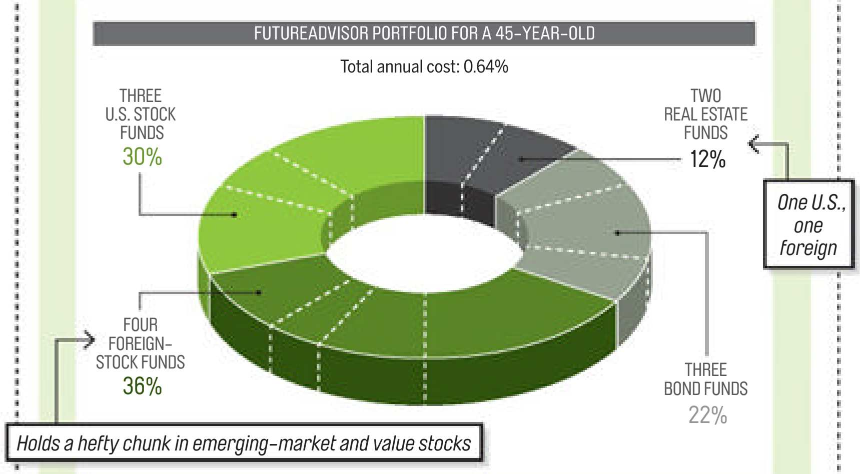
Wealthfront charges 0.25% of assets per year to delegate; Betterment is 0.15% to 0.35% of assets. If you add in the fees you pay on

AUTOMATIC PORTFOLIOS FOR THE PEOPLE

A single target-date fund can get you a diversified portfolio of low-cost index funds. New online advice services are similar but tend to use more kinds of funds in each asset class. Many also tilt more toward foreign stocks.







NOTES: Wealthfront and FutureAdvisor portfolios are for an investor with "moderate" risk tolerance, earning $100,000 with $250,000 to invest. Costs include fund costs. **SOURCES:** Vanguard, Wealthfront, FutureAdvisor

ETFs, that might top out at 0.5% for your whole investment portfolio. Lots of actively managed stock mutual funds, which don't do a whit of financial planning for you, cost twice as much.

Of course, in-the-know investors can get something similar that's even cheaper. An index-based target-date mutual fund will also give you a preset mix of stocks and bonds, and shift them as you age. Vanguard Target Retirement 2035, meant for an investor retiring in 20 years, has about the same stock/bond mix as Wealthfront recommends (see the chart at left). It costs less than 0.2%.

Robos' index portfolios are a bit more fine-tuned than Vanguard's. They're tweaked to match your expressed risk tolerance, and Betterment, for example, thinks there's a long-term edge to be gained by holding index funds that track value-priced stocks in addition to an all-market fund. Wealthfront adds commodities for diversification and a high-dividend stock fund for extra income.

In the end, it's fair to say these are all price-competitive products, and what you prefer may be a matter of taste. A bigger issue for Betterment and Wealthfront is that there's some money they can't help you with—and it may be the bulk of your wealth.

THE 401(k) PROBLEM

Betterment and Wealthfront not only have low prices but also modest minimums. (Betterment actually has no minimum.) Yet as accessible as they want to be, they are still in some sense niche products. They skew young—with an average age of about 35, vs. 51 for the average mutual fund owner—and they don't even try to address what's in your 401(k). That means that they make sense only for people who don't have a workplace savings plan, are doing so well that they have money to invest on top of one, or who have been able to roll over 401(k) money from a previous employer.

That's a pretty big blind spot for an adviser. While Americans have $6.5 trillion in IRAs, there's more than $16 trillion stashed in less flexible vehicles like 401(k)s and pensions, according to the Investment Company Institute.

Some other robo-advisers have been trying to crack that nut. But it's a tough one, since employers have so much control over 401(k) options. "No one has really solved it," says Chris Nicholson, head of communications at FutureAdvisor, another automated adviser.

FutureAdvisor's answer so far is a free web tool that provides basic 401(k) analysis. You can give the company a password to your plan's website, and it will look at your asset allocation and suggest some changes. (It says passwords stay encrypted and give them read-only access; if it can't link to your plan's site, you can enter your info manually.) Since FutureAdvisor doesn't know your plan options, however, it can only suggest some index funds you might have access to in your plan.

The tool essentially provides a taste of what FutureAdvisor offers with its premium service (similar to Betterment and Wealthfront) for money outside your 401(k). It charges 0.5% a year on assets it invests for you.

Another company, Jemstep, has actually built a database of 401(k) plans and their options. Its web tool aims to give you specific trad-

The Rise of *Cheap*

Investing has gotten cheaper if you know where to look. Affordable advice has usually been harder to find.

1975 The government ends the long-standing practice of fixed stock-trading commissions. New discount brokers, including Schwab, quickly cut the cost of trading a stock by 50%, but they offer no investment advice.

1976 Do-it-yourself investors get a new tool for easy, low-cost diversification when Vanguard launches the first index fund for retail investors.

1980 Most investors are still paying stiff fees for advice, and 67% of stock mutual funds are sold with "loads," or broker commissions, included in the price.

1996 E*Trade goes public as online trading takes off. The new brokers push trading costs to $15 or less, undercutting Schwab at $40.

2001 The mutual fund advice tide has turned: 58% of stock fund sales carry no load.

2006 Congress endorses target-date funds as a default investment for 401(k) plans. The funds, which gradually shift from stocks to bonds as owners age, become a simple form of financial planning for the masses.

2009 Holding the market gets cheaper than ever. Schwab makes trading free for exchange-traded Schwab index funds costing less than 0.1% of assets.

What Can a Robot *Do for You?*

Over a dozen new services use tech to deliver advice. Here are just some of the most buzzed-about options.

WHAT KIND OF HELP DO YOU WANT?	ROBO ADVISER	TYPICAL INVESTMENTS	WHO CAN USE IT	COST (NOT INCLUDING ANY FUND FEES)
"I JUST WANT TO KNOW WHAT TO DO WITH MY IRA." *These sites ask your age and a few questions, then create a portfolio of low-cost exchange-traded index funds. They automatically rebalance the portfolio and adjust your risk as you age.*	Betterment	Vanguard and iShares ETFs	Anyone—there's no minimum, but costs are higher on small accounts	0.35% a year on assets under $10,000; 0.25% on $10,000 to $100,000; 0.15% for over $100,000
	Wealthfront	Vanguard and iShares ETFs	Accounts of $5,000 or more	Free for first $10,000 then 0.25% per year on assets above that
	Schwab Intelligent Portfolios (launching this spring)	Expected to be Schwab and third-party ETFs	Accounts of $5,000 or more	Free
"I NEED TO CONSIDER MY 401(k) TOO." *You can look at your 401(k) and other accounts in one place with these tools. But you may have to implement some recommendations on your own.*	Jemstep (pm .jemstep.com)	Can make recommendations for your 401(k) portfolio based on options in your plan. (Can analyze other accounts like IRAs.) You have to make the switches yourself.	Anyone	Free web tool. Specific recommendations are free on accounts up to $25,000; then $18 to $70 a month, rising with size.
	FutureAdvisor	Runs IRAs and taxable portfolios of ETFs. It can see your 401(k) and make allocation recommendations—how much in stocks and bonds—but doesn't know your plan options.	Must have a Fidelity or TD Ameritrade account for portfolio management	401(k) recommendations are free. 0.5%/year on managed portfolios
	SigFig	Similar to FutureAdvisor, its web tool can make recommendations for your 401(k). Uses ETFs in individual accounts.	Fidelity, TD Ameritrade, or Schwab account for portfolio management	Free web tools. Portfolio management free for first $10,000; 0.25% a year on assets above that
"I REALLY NEED TO TALK TO A PERSON" *These services may offer web tools to show what's going on with your money, but you'll also be paired with a flesh-and-blood adviser or planner whom you'll talk to on the phone.*	Vanguard PAS (pilot program)	Vanguard index funds	Vanguard clients with at least $100,000 invested	0.3% of assets a year
	LearnVest	Focused on comprehensive financial planning. Does not invest directly, but makes broad recommendations	Anyone	Free budgeting web tool. Upfront fee of $299, and $19 a month.
	Rebalance IRA	Vanguard and iShares ETFs	Accounts of $100,000 or more	$250 setup fee; 0.5% of assets a year
	Personal Capital	A separate account of stocks and ETFs, guided by the company's investment committee. Web app recommends asset allocation for 401(k) and other accounts	$100,000 for portfolio management	0.89% of assets a year; 0.79% or less above $1 million. Free web app

ing instructions, which you execute yourself. You can get asset allocation advice free, but for the actual fund picks, it charges a flat monthly rate of $18 to $70, depending on your account size.

But perhaps illustrating how hard it's been to make a dent in the 401(k) advice market, Jemstep has also started a product for traditional advisers who want to automate some of their work load. It's the main thing you see when you go to its website now. You have to hunt around for its consumer tool.

WHAT ABOUT TALKING TO A REAL PERSON?

Here are some other things a computer will still struggle to do: Help you think through whether you are truly ready to retire or to buy your first house. Or parse a really complicated financial question—one you might not even be sure how to ask. So other startups are pairing computer tools with human beings you talk to on the phone.

Personal Capital has a free, slick web tool that can analyze your 401(k), and like FutureAdviser uses that to pitch a money management service, but one with an adviser attached. (It's relatively expensive in this group.) Other players aim to keep the tech in the background. Rebalance IRA, for example, works a lot like the other robos, using low-cost index ETFs, but starts the process with a phone consultation. "I am able to suss out what people are thinking and feeling," says Eileen McPeake, a VP at Rebalance IRA who also works with clients. "You can provide a more nuanced take. Like, if you have a pension, put more in equities."

LearnVest comes at advice from a different direction, starting with basic money planning (building an emergency fund, saving regularly, and making sure you have the right insurance) and getting to investing last. It lets you link accounts, from student loans to credit cards, so that you can see them all on one online dashboard. For a flat setup fee of $299 and then $19 a month, you'll get to talk on the phone with a planner who sees your dashboard too. The planners can also discuss investment strategy. But they'll focus on your broad asset-class mix, so you'll make investments on your own at your own brokerage.

How expensive LearnVest is depends on how you use it. The first year of service at $500 works out to 0.5% of assets on $100,000 but 0.25% of $200,000. If you use LearnVest only for a few months to get started, it's even less.

HERE COME THE GIANTS

The industry's incumbents won't give up their trillion-dollar businesses without a fight.

Index fund giant Vanguard has a pilot program, Personal Advisor Services, that combines investment and budgeting web tools with over-the-phone access to advisers. It's open to Vanguard clients with more than $100,000 to invest, but the company hopes to lower the minimum to $50,000 this year. It charges 0.3% of assets per year.

Schwab's new Intelligent Portfolios service, slated for March, sounds a lot like Betterment. It will charge no added fee, although it will use some Schwab-run cash vehicles and ETFs (as well as third-party ETFs), so it will still generate some revenue for Schwab.

Since the product—along with its investment options—had not yet been unveiled as of early March, there's no way to judge it. But Cerulli Associates analyst Scott Smith thinks Schwab won't be the last traditional adviser to jump in with an automated option. "Every big player will have something," he says. But they might be limited in how far they can go. Smith adds, "They aren't going to go to their existing customers and say, 'Hey, we know you like what you've got, but how about this cheaper thing?' "

Perhaps no firm better exemplifies this conundrum than Fidelity. It's kept a hand in the robo game, for example announcing last year that it would make Betterment web tools available to Fidelity-affiliated advisers. But it's not yet offering its own cheap Betterment-like service. Fidelity already has a $137 billion business—seven times that of the robos combined—called Portfolio Advisory Service. It charges an average 0.8% of assets a year (smaller accounts pay more), uses phone-based advisers, and invests with active managers as well as in index funds.

Robos aren't ready to kill that business just yet. Today they are best-suited to people with an early-adopter mentality, who are comfortable using web tools to drive big financial decisions, yet don't want to go purely DIY. Still, advisers in general are being challenged to up their game. "Charging 1% to put people into mutual funds isn't going to cut it," says Tadas Viskanta, editor of investing blog Abnormal Returns. Even if robos aren't perfect, good advice at a rock-bottom price suddenly doesn't seem like too much to expect.

SPRING RETIREMENT GUIDE

RETIRE ABROAD

Retire Abroad and Save!

BY CARLA FRIED

YOU SAID YOU'D TRAVEL MORE WHEN YOU FINALLY QUIT WORK. BUT HOW ABOUT STAYING IN VACATION MODE? SPENDING ALL OR PART OF YOUR RETIREMENT IN ANOTHER COUNTRY CAN BE PERSONALLY FULFILLING *AND* FINANCIALLY REWARDING.

Retire to ...

Malta

POPULAR RETIREE CITIES: St. Paul's Bay, Valletta/Sliema/St. Julian's region, Gozo

AVERAGE MONTHLY COST OF LIVING: $2,000

HEALTH CARE RATING (100 = BEST): 86

SHOWN HERE: From Spinola Harbour in the town of St. Julian's you have a lovely view of the Mediterranean—and your pick of restaurants and bars.

SOURCE: *InternationalLiving.com*

A YEAR AGO, empty-nesters Bob Hawkins, 64, and Rose Alcantara, 56, were living in Fairfield, Calif., and spending more than $6,000 a month to do so. Some $2,500 of that was going to the mortgage on a 3,200-square-foot, five-bedroom home that the two of them rattled around in. Says Hawkins: "A lot of money was going out for a life we barely wanted to sustain anymore."

He had recently retired from a 40-year career as a writer and editor in the newspaper business. And Alcantara was eager to step back from 13-hour days as an in-demand Pilates instructor. They were ready for a change, so they decided to make a 180-degree turn.

Today the couple pay $1,100 a month to rent a two-bedroom condo with what Hawkins calls a "million-dollar Caribbean view" in Ambergris Caye, an island off mainland Belize. They have traded the three cars they had stateside for two bicycles and a golf cart—all that's needed to get around Ambergris Caye. "Bottom line, we're spending easily half of what we were in the States, and in return we have our lives back," says Hawkins.

The benefits of going abroad for your retirement, as Hawkins and Alcantara can attest, go beyond feeding your sense of adventure and your fantasies of trading the working grind for paradise. Leaving the U.S. can make a lot of financial sense too. If you settle somewhere less expensive than you live today, you can significantly extend the life of your nest egg—even if you stay for only five or 10 years before returning to the U.S., says Kathleen Peddicord, author of *How to Retire Overseas.*

And let's be clear, this is *not* about penny pinching. "If you have $2,000 to $2,500 a month to spend, you will be among the wealthy in many countries," says Peddicord.

Meanwhile, the mechanics of pulling off an expat adventure have never been easier. The web is overflowing with destination information and "I did it" blogs (Hawkins has one). Online financial management makes it easy to leave your money safely stateside. Skype and FaceTime help you stay connected with loved ones back home. Moreover, you can get to some of the best international retirement spots—hint: Latin America—faster than you can fly coast to coast.

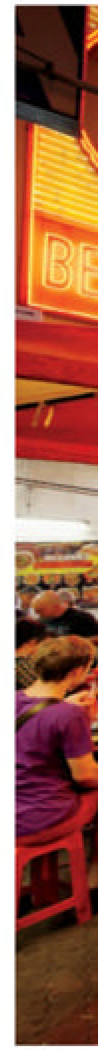
No wonder more retirees are leaving the country. Last year 380,000 Social Security beneficiaries had their benefits sent to a foreign address, a 50% increase from 10 years ago. Countless others opt to have their checks deposited in U.S. accounts or aren't yet drawing their benefits.

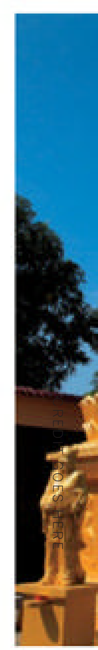
Intrigued? This guide can help you figure out if you're suited to a retirement outside the country, point you in the direction of your ideal destination, and get you started thinking about the logistics. While you're reading, get inspired by the destinations pictured, all of which made *International Living's* 2015 list of best places for Americans to retire abroad.

STAGE ONE: DETERMINE YOUR "EXPATABILITY"

Before you start scoping out destinations, job one is to "profile yourself ruthlessly," advises Dan Prescher, an editor at *International Living,* which provides resources to Americans who are considering a move abroad. You have to make a careful appraisal of whether you have the disposition to thrive as an expat and what your priorities are.

Test your mettle. Would your friends describe you as ready for anything? "Successful expats aren't looking for America Lite at half the price," says Prescher, who is also a co-author of *The International Living Guide to Retiring Overseas on a Budget.* "They are eager and willing to





Retire to ...

Malaysia

POPULAR RETIREE CITIES: Malacca, Kuala Lumpur, Ipoh, Penang, Kota Kinabalu

AVERAGE MONTHLY COST OF LIVING: $1,500+

HEALTH CARE RATING (100=BEST): 94

SHOWN HERE, CLOCKWISE: Kuala Lumpur's Chinatown comes alive after dark; the Petronas Towers rule that city's skyline; Buddhist temples draw worshippers and nonworshippers alike.

PREVIOUS SPREAD: PHOTOGRAPH BY NAGELSTOCK.COM/ALAMY. THIS SPREAD, CLOCKWISE FROM TOP: PHOTOGRAPHS BY ERIC MARTIN/FIGAROPHOTO/REDUX (2); TIBOR BOGNAR/ALAMY

> ***"Bottom line, we're spending easily half of what we were in the States, and in return we have our lives back."***
>
> —BOB HAWKINS, 64, AMERICAN RETIREE LIVING IN BELIZE

immerse themselves in a different culture. What makes this really work is a sense of adventure."

In other words, rather than comparing the laws and customs of their new homes to what they are used to in America, happy retiree expats embrace the change.

That definitely describes Jonathan Look Jr., 55. Since retiring from his job as an air-traffic controller in Houston in 2011, he has by design moved to a new country every 12 months. (So far he has lived in Mexico, Thailand, Cambodia, and Laos.) Even if you plan to settle down in a single place, Look says, you'd better have a passion for living abroad. "That's the most important quality you need," adds Look, who is blogging about his experience at LifePart2.com. "Not an interest, not a curiosity, not a fancy, but a passionate desire. Without the desire, even slight inconveniences will feel like major obstacles."

Devise your must-have list. If you're still game after a self-analysis, the next step is figuring out what you most want a destination to deliver. Make yourself a chart with the following categories along the top: must-have, would be great, not an issue. Then, along the left, list important considerations, which may include the following: quality health care, low cost of living, being able to get by with English, sizable American community, direct flights back home, city vibe or country quiet, ability to live without a car, and reliable and fast wireless access.

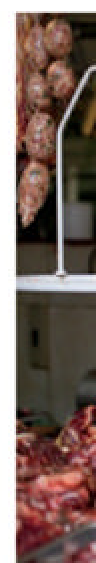
You might also think about what characteristics are deal breakers. When Susan and Craig Korthase, both 59, were ready to leave Milwaukee and their demanding careers in 2011, they were focused on their must-not-haves as much as their must-haves. "We wanted to avoid political unrest or violence, we resist a highly stratified society, and we are religious agnostics," says Susan. "And we knew we didn't want bugs in the house and monkeys outside our door." They have happily settled in Cascais, Portugal, a seaside town 20 minutes from Lisbon.

STAGE TWO: FIND YOUR PERFECT PLACE

Armed with your list of priorities, you're ready to start scoping out potential locations. Stick to that list, though. "There is sometimes a tendency to fall in love with a place that doesn't meet your criteria—you tell yourself you'll make it work," warns Peddicord, author of *How to Retire Overseas.* "But you won't. Don't compromise on your highest priorities."

Travel from your tablet. The websites InternationalLiving.com and LiveandInvestOverseas.com have insights on dozens of destinations that Americans might want to consider. ExpatInfoDesk.com also offers country-specific content, though on fewer places. The most effective research, however, will come from Googling any country or area that sounds promising, and including the terms "retire abroad," "expat retiree," or "expat blog."

Look for a clean bill of health. While everyone's priorities will be different, health care is a universal concern, as aches, pains,



Retire to ...

Ecuador

POPULAR RETIREE CITIES: Cuenca, Quito, Vilcabamba, Cotacachi, Salinas

AVERAGE MONTHLY COST OF LIVING: $1,500

HEALTH CARE RATING (100 = BEST): 82

SHOWN HERE, FROM TOP: The Plaza de la Independencia sits at the center of capital city Quito; in Cuenca, you can shop for local meats and veggies at the market at the Plaza Rotary.

and ailments typically increase with age. So while vetting the medical offerings won't be as sexy as looking at beachfront real estate listings, you'll want to dig into this topic early on.

The good news is that quality care is available in many larger cities across the world. For example, Johns Hopkins Medicine International has affiliations with hospitals in many Latin American countries, including Chile, Mexico, and Peru.

International Living rates countries in its index on health care cost and quality based on the experiences of its correspondents. Also, you can read thumbnail descriptions of the health care systems for 60 countries at worldhospitalsearch.org. The site's hospital search tool shows whether a facility has obtained Joint Commission International accreditation, which focuses on quality and safety of care.

Run the *números*. To get a sense of living costs in any destinations you have in mind, visit Expatistan.com and Numbeo.com, which provide crowdsourced data on global prices. Be as realistic as you can about how you'll live; if you'd like to have at least three bedrooms so that you can easily entice stateside friends to visit, pencil that into the budget. And don't forget to figure in health insurance premiums (see "3 Ways to Minimize Health Care Costs" on page 84), which could be one of your biggest expenses.

Finally, if part of the allure of a foreign retirement is to stretch your nest egg—something you may not be able to do if you're set on living in, say, Zurich—make sure you factor into your expenses the costs of retaining ties to the U.S.

PHOTOGRAPHS BY LUIS DAVILLA/FIRST LIGHT (TOP); BRIAN D. CRUICKSHANK/GETTY

3 Ways to Minimize *Health Care Costs*

SIGN UP FOR MEDICARE AT 65 even if you're not in the U.S. While Medicare won't pay for care outside the country, many retirees living abroad schedule doctor visits when they visit home. Plus, if you later return for good and haven't enrolled, you'll pay a 10% premium penalty on Part B (the medical insurance portion) for every year you were eligible, says AARP's Patricia Barry, author of *Medicare for Dummies.* For 2015, the B premium is $104.90 a month for a married person with modified AGI under $170,000.

DETERMINE YOUR NEEDS. Many nations have two systems: public and private. You'll probably prefer the convenience and facilities of the latter. Medical costs are lower in most other countries, even in the private system, but unless you can pay out of pocket, you'll want insurance. Plan to stay put in your new country? You'll be fine with a policy covering local doctors and hospitals. If you'll travel, get an international expatriate policy.

PRICE PRIVATE POLICIES. Major insurers that offer international private policies include Aetna International, Cigna Global, Bupa Global, and GeoBlue. Members of the Association of Americans Resident Abroad (aaro .org) are eligible for a group plan—in 2015, a couple in their sixties will pay $500 or so a month for hospitalization coverage. Keep in mind that even group private policies require underwriting, so if you have a preexisting condition, you might have a waiting period and a higher premium. Also, some plans stop at age 75 or 85, though that may work if you'll move back to the U.S.

Retire to ...
Spain

POPULAR RETIREE CITIES: Granada, Málaga, Alicante

AVERAGE MONTHLY COST OF LIVING: $2,200-plus

HEALTH CARE RATING (100 = BEST): 87

SHOWN HERE: Altea, a town in the Alicante province along the Mediterranean, is known for a quaint old town with winding—and sometimes steep—streets.

Estimate the number of trips back you'll make per year (do you want to be there for every grandkid's birthday?) and what they'll cost.

Also think about what you'll do with your house. If you intend to keep your home in the States, are you going to eat the carrying costs or rent it out? If the latter, talk to a realtor to see if you'd be able to do so at a price that will cover your expenses, including hiring a property manager if you don't have family or friends willing to be de facto local landlord. (The typical cost for a single-family home is 10% of rent.)

Plan scouting trips. While you're still working, use vacation time to start checking out destinations that make your final cut. The goal is to live like a local. So skip the resorts and rent a home or apartment away from the vacation strip. The websites Vrbo.com and Airbnb.com list global rentals.

Plan on cooking; shopping for dinner is a lot different from picking up noshes to have on your hotel veranda. Also, window-shop for basics like shampoo and toothpaste. Stick your nose into the bank and hospital. And if all the locals are on bike or moped, give that a try. "After a few weeks of grocery shopping, getting a haircut, and dealing with the currency difference, plenty of people end up realizing, 'Thank you very much, this isn't what I want,'" says Bryan Hancock, founder of Timberchase Financial, a wealth management firm in Birmingham, Ala., with many clients living abroad.

When you think you've found your "This is it" spot, be sure to schedule an off-season visit before you make a final commitment. If your plan is to live someplace full-time, you'll want to see it at its least compelling.

STAGE THREE: MAKE THE RIGHT PRE-MOVE MOVES

It's not just *postres* and piña coladas once you move. As a foreigner living abroad, you'll face some unique administrative headaches. But these general rules of the road can keep the hassles to a minimum:

Embrace renting. Yes, in many areas, real estate can be very inexpensive relative to U.S. prices. But Hancock, the expat financial adviser, counsels clients against buying property overseas. "From a financial planning perspective, there is no benefit," he says. In many places you won't be able to get a mortgage—because you are a foreigner or don't have earned income—so you'd tie up a big chunk of money in the home. There's also incredible risk in signing a contract in a foreign language. Plus, purchasing a home could impede your flexibility: "Being able to grab your bag and just go can be valuable," Hancock says.

If you absolutely, positively want to buy, at least rent for the first year. That gives you time to make sure you're sold on the country and zero in on the area you want. Hire a local attorney to make sure the requisite paperwork—especially title—is in place, says Peddicord.

Keep most of your cash stateside. After all, you can't get more sleep-at-night security than knowing your money is parked at a federally insured U.S. bank. If you're moving to a country with a low cost of living where cash transactions are the norm, keeping American bank accounts and accessing money

PHOTOGRAPH BY INGOLF POMPE/FIRST LIGHT

through an ATM may be your best bet for day-to-day expenses. Ideally, though, you'll want an institution that rebates foreign ATM fees. Schwab and TD Ameritrade rebate fees internationally for certain accounts. Citibank has a global footprint and thus may have ATMs in your destination.

Opening a local checking account and transferring money from your U.S. accounts to pay for your expenses may make more sense if the country is not cash-centric or your costs are higher. But be ready for a lengthy setup—in person. "In some countries the banking system is a lot like the face-to-face relationship banking in the States in the 1950s," notes Prescher.

American citizens abroad can typically have Social Security payments direct-deposited to a foreign account (see ssa.gov/international for details). While you can do the same with IRA or 401(k) distributions, you shouldn't. David Kuenzi, founder of Thun Financial Advisors, which specializes in planning for Americans abroad, warns that this triggers a 10% withholding tax.

Leave investments at home too. And manage them electronically, suggests Kuenzi. He says foreign-based mutual funds are typically more expensive than U.S. options. And you could create tax headaches by buying or selling securities overseas. For example, an investment that's tax-exempt in another country may be considered taxable by Uncle Sam.

Get the right credit card. You'll want to have plastic in your wallet without a foreign transaction fee—or else you'll end up paying 1% to 3% more on all your purchases. Capital One and Discover don't levy the fee on any of their cards. But if you also want to earn travel rewards to pay for your flights back and forth, your best bets would be the Barclaycard Arrival Plus World Elite MasterCard (annual fee of $89, waived the first year) or Chase Sapphire Preferred (annual fee of $95, waived the first year). Both were 2014 winners of MONEY's Best Credit Cards of 2014 in the travel rewards category, and neither has a foreign-transaction fee.

Get covered. U.S.-based health insurance coverage, including Medicare, typically doesn't extend across borders. While medical costs are often lower in other countries, you'll still probably want a policy to help you pay for care. See the box on page 84 for more information.

Square up with Uncle Sam. The U.S. is the only major country that bases taxation on citizenship, not residency. If you've heard griping about this, it's from working expats earning high incomes abroad. They are likely to be taxed where they are living, and any amount over the U.S. foreign earned income tax credit—$100,800 in 2015—is also taxed by Uncle Sam. Retirees are unlikely to have that much earned income generated abroad.

You do, of course, still need to pay your U.S. taxes and may have

> ***"From a financial perspective, there's no benefit to buying a home overseas. It adds a level of complexity to your life."***
>
> —BRYAN HANCOCK, FINANCIAL ADVISER

CLOCKWISE FROM TOP LEFT: PHOTOGRAPHS BY TONY ANDERSON/GETTY; ISTVAN KADAR PHOTOGRAPHY/GETTY; DANITA DELIMONT/GETTY

Retire to ...

Mexico

POPULAR RETIREE CITIES: San Miguel de Allende, Lake Chapala, Puerto Vallarta, Mérida

AVERAGE MONTHLY COST OF LIVING: $2,200-plus

HEALTH CARE RATING (100 = BEST): 84

SHOWN HERE, CLOCKWISE FROM UPPER LEFT: Folk dancers perform in Mérida; Puerto Vallarta's beaches are a big draw for retirees; ceviche, or citrus-cured raw fish, is a popular dish throughout Mexico.

local tax to deal with as well; plus you'll have paperwork to fill out if you have more than $10,000 in foreign accounts. Chances are you will not face double taxation; in most instances any foreign tax paid can be credited on your U.S. tax return. But it's complicated, and even if you love your current CPA or have been a serial DIYer, Kuenzi recommends working with an accountant who has experience with expats.

Be sure you can stay awhile. Being a tourist works only for so long. In most countries, a stay beyond 30 to 90 days requires a residency visa. Research the requirements at the website of the country's U.S. embassy or consulate.

Some countries roll out the red carpet for retirees with money to spend: Panama and Ecuador offer retirement visas to anyone who can show a modest guaranteed income, such as Social Security.

In other countries, landing a residency visa can test your patience. Susan Korthase describes dealing with Portuguese bureaucracy as a "living hell." (She's now something of a visa whisperer for other Americans there.) No matter where you're headed, hiring a local lawyer is vital, says Peddicord.

For the Korthases, that visa hassle was a small price to pay for the dream they're now living. They spend their days immersed in the local culture through volunteer work: Susan helps fix English translations on tourism materials, while Craig coaches for the Lisbon Devils, part of a league feeding the Portuguese interest in U.S. football. Plus, "we have the sea outside our door, a boat in the marina, and kilometers to walk every day," says Susan. They're so at home now, she adds, "even short visits to the U.S. make us anxious to return to Portugal." ◻

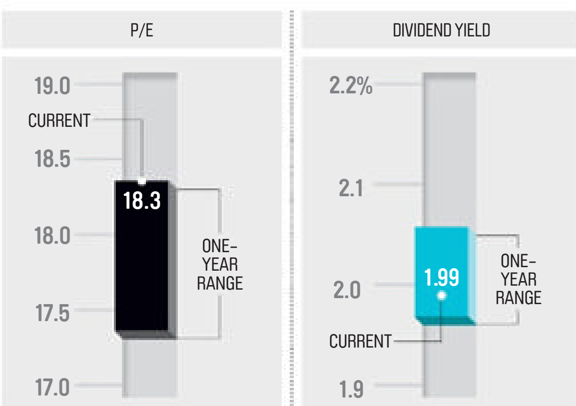
THE NUMBERS

STOCKS & FUNDS

Equities Find Their Footing

AFTER A ROLLER-COASTER START to the year, the stock market was back to setting record highs in the four weeks ended Feb. 18. One sign of the renewed confidence: Economically sensitive sectors like materials and consumer discretionary shot up more than 7%.

S&P 500 RATIOS



BENCHMARKS

INDEX	TOTAL RETURN ONE MONTH	ONE YEAR	THREE YEARS[1]
S&P 500	**4.2%**	16.4%	18.0%
Nasdaq[2]	**5.9**	14.8	18.4
Russell 2000	**4.5**	7.1	15.6
Morgan Stanley EAFE	**6.6**	−0.9	9.3
Dow Jones industrial average	**3.3**	14.4	14.5
Barclays U.S. aggregate bond index	**−0.6**	5.0	2.7
SECTOR			
Basic materials	**7.9**	13.6	13.6
Consumer discretionary	**7.1**	16.2	22.2
Energy	**7.1**	−2.9	4.8
Information technology	**6.1**	21.9	17.0
Industrials	**5.3**	14.1	18.0
Financials	**3.8**	14.5	20.3
Telecom services	**2.4**	13.4	12.5
Health care	**1.3**	23.4	27.7
Consumer staples	**0.9**	23.2	17.9
Utilities	**−5.0**	18.6	14.1

NOTES AND SOURCES: *Stock index data as of Feb. 18 from Lipper, New York; 877-955-4773. Sector returns from Bloomberg. Bond index data from Barclays. Monthly S&P 500 ratios are from Standard & Poor's. P/E ratios are based on previous four quarters of operating earnings. Biggest funds ranked by total net assets. [1]Annualized. [2]Price change only.*

BIGGEST MUTUAL FUNDS BY CATEGORY

CATEGORY	TOTAL RETURN ONE YEAR	THREE YEARS[1]	EXPENSES (AS % OF ASSETS)
LARGE-CAP STOCKS			
Fidelity Contrafund (FCNTX)	11.2%	17.3%	0.67
American Funds Growth Fund of America (AGTHX)	10.9	17.8	0.66
American Funds Investment Co. of America (AIVSX)	14.5	17.5	0.61
Dodge & Cox Stock (DODGX)	11.2	19.6	0.52
American Funds Wash. Mutual Investors (AWSHX)	13.8	16.8	0.60
MIDCAP			
Fidelity Low-Priced Stock (FLPSX)	10.8	15.9	0.82
Vanguard Mid-Cap Index (VIMAX)	15.9	18.2	0.09
Vanguard Extended Market Index (VEXAX)	9.8	17.3	0.10
Fidelity Spartan Extended Market Index (FSEVX)	10.0	17.2	0.07
Columbia Acorn (ACRNX)	3.7	12.0	0.79
SMALL-CAP			
Vanguard Small-Cap Index (VSMAX)	9.9	17.2	0.09
T. Rowe Price Small-Cap Value (PRSVX)	1.0	12.1	0.96
Vanguard Explorer (VEXRX)	7.1	16.5	0.35
Vanguard Small-Cap Value Index Fund (VSIAX)	12.8	17.8	0.09
Vanguard Small-Cap Growth Index (VSGAX)	6.4	16.3	0.09
BALANCED			
Vanguard Wellington (VWENX)	11.0	12.5	0.18
American Funds American Balanced (ABALX)	10.8	13.2	0.61
Fidelity Balanced (FBALX)	11.2	12.9	0.56
Oakmark Equity and Income (OAKBX)	9.5	11.2	0.77
Fidelity Puritan Fund (FPURX)	10.9	13.0	0.56
INTERNATIONAL			
Vanguard Total International Stock Index (VGTSX)	0.8	6.8	0.22
Harbor International (HAINX)	−1.6	6.7	0.74
American Funds EuroPacific Growth (AEPGX)	1.3	9.2	0.84
Artisan International Fund (ARTIX)	3.1	12.6	1.17
Fidelity Diversified International Fund (FDIVX)	1.9	11.2	0.91
EMERGING MARKETS			
American Funds New World (NEWFX)	0.6	5.3	1.03
Vanguard Emerging Markets Stock Index (VEMAX)	9.7	0.5	0.15
T. Rowe Price Emerging Markets Stock (PRMSX)	11.3	1.8	1.25
Fidelity Emerging Markets (FEMKX)	9.2	3.3	1.07
Russell Emerging Markets (REMSX)	4.6	0.6	1.51
U.S. GOVERNMENT BONDS			
Fidelity Government Income (FGOVX)	4.3	2.0	0.45
American Funds U.S. Government Securities (AMUSX)	3.6	1.4	0.64
MFS Government Securities (MFGSX)	3.6	1.4	0.88
J.P. Morgan Government Bond (OGGAX)	4.1	1.7	0.76
Sit U.S. Government Securities (SNGVX)	1.9	0.7	0.80
INVESTMENT-GRADE			
Vanguard Total Bond Market Index (VBTLX)	4.9	2.7	0.08
Vanguard Total Bond Market II Index (VTBIX)	4.7	2.5	0.12
Dodge & Cox Income (DODIX)	4.2	4.1	0.43
Vanguard Short-Term Investment-Grade (VFSUX)	1.7	2.3	0.10
T. Rowe Price New Income (PRCIX)	5.0	3.0	0.61
HIGH YIELD			
American Funds American High-Income Trust (AHITX)	1.1	6.3	0.66
Vanguard High-Yield Corporate (VWEAX)	5.0	7.2	0.13
Fidelity Capital & Income (FAGIX)	7.3	9.5	0.71
Fidelity High Income (SPHIX)	1.9	6.6	0.72
Northern High Yield Fixed Income (NHFIX)	1.6	7.1	0.81
TAX-EXEMPT			
Vanguard Intermediate-Term Tax-Exempt (VWIUX)	5.5	3.2	0.12
Fidelity Municipal Money Market (FTEXX)	0.0	0.0	0.40
Vanguard Limited-Term Tax-Exempt (VMLUX)	1.5	1.3	0.12
Vanguard Tax-Exempt Money Market (VMSXX)	0.0	0.0	0.16
Schwab Municipal Money Fund (SWXXX)	0.0	0.0	0.62

Funds Jump on Economic News

U.S. GROWTH AND ADDITIONAL STIMULUS ABROAD FUEL GAINS IN THE *MONEY* 50.

A MAJORITY of the stock portfolios in our recommended list of mutual and exchange-traded funds posted substantial gains in the four weeks ended Feb. 18, thanks to a slew of positive economic developments globally.

Here at home employers continued to add workers at a brisk clip. In the eurozone, the economy grew faster than was anticipated. GDP in Germany expanded 0.7% in the last three months of 2014—more than double the expected rate. Meanwhile, the European Central Bank committed to a stimulative bond-buying program to ward off deflation. And the price of oil rebounded, a sign the global economy may not be in such dire straits. A big beneficiary was Europe-heavy **Oakmark International,** which gained more than 8%. —TAYLOR TEPPER

HOW TO USE OUR RECOMMENDED LIST

Building-block funds: For broad exposure to core asset classes
Custom funds: Specialized investments that can tilt your strategy
One-decision funds: If you want stocks and bonds in one portfolio

FUND (TICKER)	TOTAL RETURN: ONE MONTH	TOTAL RETURN: ONE YEAR	TOTAL RETURN: THREE YEARS[1]	EXPENSES (AS % OF ASSETS)	PHONE NUMBER (800)
BUILDING-BLOCK FUNDS					
Large-Cap					
Schwab S&P 500 Index (SWPPX)	**4.2%**	16.3%	17.9%	0.09	435-4000
Schwab Total Stock Market Index (SWTSX)	**4.5**	15.0	17.8	0.09	435-4000
Midcap/Small-Cap					
iShares Core S&P Mid-Cap (IJH)	**5.5**	12.8	16.9	0.14	474-2737
iShares Core S&P Small Cap (IJR)	**4.5**	9.6	16.7	0.14	474-2737
Foreign					
Fidelity Spartan International (FSIIX)	**5.9**	−0.6	9.3	0.20	544-8544
Vanguard Total Intl. Stock (VGTSX)	**4.9**	0.8	6.8	0.22	662-7447
Vanguard FTSE A/W ex-U.S. Small (VFSVX)	**4.9**	−3.3	6.7	0.40	662-7447
Vanguard Emerging Markets (VEIEX)	**2.8**	9.5	0.4	0.33	662-7447
Specialty					
Vanguard REIT Index Investor (VGSIX)	**−1.9**	27.6	15.5	0.24	662-7447
Bond					
Vanguard Total Bond Market (VBMFX)	**−0.7%**	4.7%	2.5%	0.20	662-7447
Vanguard Short-Term Bond (VBISX)	**−0.3**	1.0	1.1	0.20	662-7447
Vanguard Inflation-Protected (VIPSX)	**−1.2**	2.0	−0.1	0.20	662-7447
Vanguard Short-Term Infl.-Prot. (VTIP)	**−0.2**	−1.5	N.A.	0.10	662-7447
Vanguard Total Intl. Bond Index (VTIBX)	**−0.2**	7.9	N.A.	0.23	662-7447
CUSTOM FUNDS					
Large-Cap					
Dodge & Cox Stock (DODGX)	**3.4**	11.2	19.6	0.52	621-3979
PowerShares FTSE RAFI U.S. 1000 (PRF)	**3.9**	15.0	18.4	0.39	843-2639
Sound Shore (SSHFX)	**4.7**	14.0	19.5	0.93	551-1980
Primecap Odyssey Growth (POGRX)	**4.9**	11.2	20.0	0.66	729-2307
T. Rowe Price Blue Chip Growth (TRBCX)	**7.0**	12.4	19.8	0.74	638-5660
Midcap					
Delafield Fund (DEFIX)	**6.0**	−3.0	8.4	1.22	697-3863
Ariel Appreciation (CAAPX)	**7.5**	14.8	20.0	1.13	292-7435
Weitz Hickory (WEHIX)	**7.5**	8.7	14.4	1.22	304-9745
T. Rowe Price Div. Mid Cap Gro. (PRDMX)	**7.1**	14.1	17.4	0.91	638-5660
Small-Cap					
Royce Opportunity (RYPNX)	**5.0**	−0.4	14.3	1.17	221-4268
Vanguard Small-Cap Value (VBR)	**4.9**	12.8	17.8	0.09	662-7447
Berwyn (BERWX)	**5.2**	−1.3	11.1	1.20	992-6757
Wasatch Small Cap Growth (WAAEX)	**5.7**	6.6	13.9	1.24	551-1700
Specialty					
PowerShares Intl. Div. Achievers (PID)	**4.5**	4.6	9.1	0.54	983-0903
SPDR S&P Dividend (SDY)	**1.6**	15.8	16.9	0.35	787-2257[2]
Cohen & Steers Realty Shares (CSRSX)	**−1.5**	27.9	15.4	0.97	437-9912
SPDR Dow Jones Intl. Real Estate (RWX)	**2.5**	11.0	12.5	0.59	787-2257[2]
iShares N. America Nat. Resources (IGE)	**8.2**	−6.7	0.0	0.48	474-2737
Foreign					
Dodge & Cox International Stock (DODFX)	**5.1**	3.9	12.4	0.64	621-3979
Oakmark International (OAKIX)	**8.1**	−0.6	13.3	0.98	625-6275
Vanguard International Growth (VWIGX)	**5.4**	0.6	8.9	0.47	662-7447
T. Rowe Price Emerging Markets (PRMSX)	**2.3**	11.3	1.8	1.25	638-5660
Bond					
Dodge & Cox Income (DODIX)	**0.0**	4.2	4.1	0.43	621-3979
Fidelity Total Bond (FTBFX)	**−0.1**	4.7	3.6	0.45	544-8544
Vanguard Short-Term Inv. Grade (VFSTX)	**0.0**	1.6	2.2	0.20	662-7447
iShares iBoxx $ Inv. Grade Corp. (LQD)	**−0.5**	7.3	5.3	0.15	474-2737
Loomis Sayles Bond (LSBRX)	**−0.1**	2.7	6.3	0.92	633-3330
Fidelity High Income (SPHIX)	**2.0**	1.9	6.6	0.72	544-8544
Vanguard Intm.-Term Tax-Ex. (VWITX)	**−0.9**	5.4	3.1	0.20	662-7447
Vanguard Limited-Term Tax-Ex. (VMLTX)	**−0.2**	1.4	1.2	0.20	662-7447
Templeton Global Bond[3] (TPINX)	**−0.6**	2.8	3.9	0.88	632-2301
Fidelity New Markets Income (FNMIX)	**1.8**	5.2	4.3	0.86	544-8544
ONE-DECISION FUNDS					
Balanced					
Fidelity Balanced (FBALX)	**3.4**	11.2	12.9	0.56	544-8544
Vanguard Wellington (VWELX)	**1.7**	10.8	12.4	0.26	662-7447
Target Date					
T. Rowe Price Retirement series (STOCK/BOND ALLOCATION)					
Example: 2005 Fund (45%/55%) (TRRFX)	**1.9**	5.8	7.3	0.59	638-5660
Example: 2020 Fund (68%/32%) (TRRBX)	**3.3**	7.5	10.8	0.67	638-5660
Vanguard Target Retirement series					
Example: 2025 Fund (70%/30%) (VTTVX)	**2.9**	9.1	11.0	0.17	662-7447
Example: 2035 Fund (84%/16%) (VTTHX)	**3.7**	9.9	12.7	0.18	662-7447

NOTES: *As of Feb. 18, 2015. N.A.: Not available. Load funds are included for those who prefer to use a broker. [1]Annualized. [2]Phone numbers are 866. [3]4.25% sales load.*
SOURCES: *Lipper, New York, 877-955-4773; the fund companies*

Do you have a purchase you consider Money Well Spent? Email us about it and what it means to you at ***wellspent@moneymail.com.***

A Perfect Pedicure

by Jill Smolowe

IN 2007 THERE WAS little money could buy that distracted me from the central drama in my life: My husband was undergoing treatment for leukemia. That June my sister, Ann, drove from her home in Vermont to mine in New Jersey to entertain my 12-year-old daughter, Becky, so I could spend the weekend in Joe's Manhattan hospital room. When I returned home, I wanted to offer a token of thanks. "Let's get pedicures," I said. "My treat."

I expected Ann's usual balking about any gift, large or small. Instead her answer caught me by surprise. "I've never had a pedicure," she said.

Eureka! I drove Ann and Becky to my favorite nail salon and murmured a message to the proprietor: My sister is a pedicure virgin. Please, give her the best. After the three of us selected our polish, Ann and Becky were shown to the pedicure chairs at the back of the salon. I, meanwhile, settled on the bench, turning on my iPod to drown out my heartache as I waited for a chair.

Eventually, I noticed the owner at the cash register, and unplugged my music to go pay. That's when I heard a familiar voice: "Oh, my God. This is heaven!" I looked down the row of chairs and there was my sister writhing in ecstasy. When I caught Ann's eye, she shrieked my nickname. "Meus! I can't believe how good this feels! Why didn't anyone tell me? Oh, my ... God ..." There's no other way to describe this: My baby sister was having a pedi orgasm. Her delighted cries had everyone in stitches. The staff. The clients. My daughter. And now, for the first time in months, me.

The bill for my sister's pedicure was $25, plus tip. That modest tab would prove a gift that kept giving—for me. The following year, at age 49, Ann was diagnosed with stage 4 colon cancer. She leavened her chemo treatments with salon pedicures. Late in the summer of 2010, confined to bed, she called to say she was looking forward to her daughter giving her a pedicure. A few days later, 14 months after my husband's death, Ann died.

Now, whenever I settle into one of the cushy chairs in my favorite nail salon, I close my eyes and hear my sister: "Meus! I can't believe how good this feels!" Each time, every time, I smile. ◼

Jill Smolowe is the author of the memoir Four Funerals and a Wedding: Resilience in a Time of Grief, *and other books.*

Illustration by MARK MATCHO

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